

McLean County School District



**Report on Audit of Financial Statements
and Supplementary Information
for the year ended June 30, 2014**

MCLEAN COUNTY SCHOOL DISTRICT
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for the year ended June 30, 2014

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INDEPENDENT AUDITOR'S REPORT

State Committee for School District Audits
Members of the Board of Education
McLean County School District
Calhoun, Kentucky

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the McLean County School District, as of and for the year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise the McLean County School District's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States and the audit requirements prescribed by the Kentucky State Committee for School District Audits' Fiscal Year 2013-2014 Financial Audit Contract. Those standards and requirements require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects; the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the McLean County School District as of June 30, 2014, and the respective changes in financial position, and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and budgetary comparison information on pages 3 through 7 and 37 through 39 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.


Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the McLean County School District's basic financial statements. The combining and individual nonmajor fund financial statements/schedules as listed in the table of contents are presented for purposes of additional analysis and are not a required part of the basic financial statements. The schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is also not a required part of the basic financial statements.

The combining and individual nonmajor fund financial statements/schedules and the schedule of expenditures of federal awards are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the combining and individual nonmajor fund financial statements and the schedule of expenditures of federal awards are fairly stated in all material respects in relation to the basic financial statements as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated November 3, 2014, on our consideration of the McLean County School District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering McLean County School District's internal control over financial reporting and compliance.



Alford, Nance, & Jones, LLP
Madisonville, KY
November 3, 2014



McLEAN COUNTY PUBLIC SCHOOL DISTRICT – CALHOUN,
KENTUCKY
MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)
YEAR ENDED JUNE 30, 2014

As management of the McLean County School District (District), we offer readers of the District's financial statements this narrative overview and analysis of the financial activities of the District for the fiscal year ended June 30, 2014. We encourage readers to consider the information presented here in conjunction with additional information found within the body of the audit.

FINANCIAL HIGHLIGHTS

- The General Fund balance for the District was \$2,381,706 at the beginning of the year. The ending balance for the General Fund for the District was \$2,150,119. This represents a current year excess of Expenditures over Revenue of \$231,587.
- Excluding beginning balance, inter-fund transfers, and on-behalf of payments made by the state, the General Fund had \$9,851,157 in revenue, which primarily consisted of the state program (SEEK), property taxes, utility taxes, and motor vehicle taxes. Excluding inter-fund transfers and on-behalf of payments, there was \$10,081,742 in General Fund expenditures.
- The District was able to purchase a school bus during the fiscal year.

OVERVIEW OF FINANCIAL STATEMENTS

This discussion and analysis is intended to serve as an introduction to the District's basic financial statements. The District's basic financial statements comprise three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. This report also contains other supplementary information in addition to the basic financial statements themselves.

Government-wide financial statements. The government-wide financial statements are designed to provide readers with a broad overview of the District's finances, in a manner similar to a private-sector business.

The statement of net position presents information on all of the District's assets and liabilities, with the difference between the two reported as net position. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position of the District is improving or deteriorating.

The statement of activities presents information showing how the District's net position changed during the most recent fiscal year. All changes in net position are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods.

The government-wide financial statements outline functions of the District that are principally supported by property taxes and intergovernmental revenues (governmental activities). The governmental activities of the District include instruction, support services, operation and maintenance of plant, student transportation and operation of non-instructional services. Fixed assets and related debt are also supported by taxes and intergovernmental revenues.

Fund financial statements. A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. This is a state mandated uniform system and chart of accounts for all Kentucky public school districts utilizing the MUNIS administrative software. The District uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the District can be divided into three categories: governmental, proprietary funds and fiduciary funds. Fiduciary funds are trust funds established by benefactors to aid in student education, welfare and teacher support. The proprietary funds are our childcare, food service operations and community education. All other activities of the District are included in the governmental funds.

Notes to the financial statements. The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

Net Position may serve over time as a useful indicator of a government's financial position. In the case of the District, assets and deferred outflows exceeded liabilities by \$6,908,658 as of June 30, 2014. Net position increased by \$246,936 during the fiscal year, of which \$109,819 was an adjustment to the beginning Fund Balance. This was due to the retroactive application of debt costs in accordance with GASB 65.

The largest portion of the District's net position reflects its investment in capital assets (e.g., land and improvements, buildings and improvements, vehicles, furniture and equipment and construction in progress), less any related debt used to acquire those assets that is still outstanding. The District uses these capital assets to provide services to its students; consequently, these assets are not available for future spending. Although the District's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

The District's financial position is the product of several financial transactions including the net results of activities, the acquisition and payment of debt, the acquisition and disposal of capital assets, and the depreciation of capital assets.

Net Position - Comparative for the periods ending June 30, 2014 and June 30, 2013

	Governmental		Business-Type		Total	
	Activities		Activities			
	June 30, 2014	June 30, 2013	June 30, 2014	June 30, 2013	June 30, 2014	June 30, 2013
Current Assets	\$3,089,558	\$2,954,134	\$238,526	\$274,762	\$3,328,084	\$3,228,896
Noncurrent Assets	<u>13,164,816</u>	<u>13,790,914</u>	<u>114,401</u>	<u>124,833</u>	<u>13,279,217</u>	<u>13,915,747</u>
Total Assets	16,254,374	16,745,048	352,927	399,595	16,607,301	17,144,643
Current Liabilities	1,493,858	1,186,560	7,586	5,545	1,501,444	1,192,105
Noncurrent Liabilities	<u>8,296,853</u>	<u>9,174,484</u>	<u>6,513</u>	<u>6,513</u>	<u>8,303,366</u>	<u>9,180,997</u>
Total Liabilities	9,790,711	10,361,044	14,099	12,058	9,804,810	10,373,102
Net Position						
Investment in capital assets (net of debt)	4,451,796	4,366,081	114,401	124,833	4,566,197	4,490,914
Restricted	197,919	256,510			197,919	256,510
Unrestricted Assets	<u>1,920,115</u>	<u>1,761,413</u>	<u>224,427</u>	<u>262,704</u>	<u>2,144,542</u>	<u>2,024,117</u>
Total Net Position	<u>\$6,569,830</u>	<u>\$6,384,004</u>	<u>\$338,828</u>	<u>\$387,537</u>	<u>\$6,908,658</u>	<u>\$6,771,541</u>

Comments

- The District's total revenues for the fiscal year ended June 30, 2014, net of inter-fund transfers, were \$16,083,695. The District's total expenditures for the same period were \$15,836,759. Revenues exceeded expenditures by \$246,936.
- Instruction was the major expenditure category and accounted for 54.0% of total expenditures. Plant operation and maintenance was the next highest expenditure at 9.99%.

Revenues - Comparative for the periods ending June 30, 2014 and June 30, 2013

	Governmental Activities		Business-Type Activities		Total	
	June 30, 2014	June 30, 2013	June 30, 2014	June 30, 2013	June 30, 2014	June 30, 2013
Revenues:						
Property Tax	\$2,195,712	\$2,131,237			\$2,195,712	\$2,131,237
Motor Vehicle Tax	407,294	406,930			407,294	406,930
Unmined Mineral Tax	50,799	34,421			50,799	34,421
Utilities Tax	592,132	569,688			592,132	569,688
Other Tax						
Investments	18,139	21,997	1,071	1,292	19,210	23,289
Other Local Revenue	17,663	15,009			17,663	15,009
Insurance Proceeds						
Sale of District Assets	231,790	6,113			231,790	6,113
State and Formula Grants	9,039,032	8,935,254			9,039,032	8,935,254
Program Revenues:						
Charges for Services	53,871	47,440	355,062	382,779	408,933	430,219
Operating grants and contributions	1,535,451	1,815,035	667,849	688,418	2,203,300	2,503,453
Capital grants and contributions	917,830	915,520			917,830	915,520
Total revenues	\$15,059,713	\$14,898,644	\$1,023,982	\$1,072,489	\$16,083,695	\$15,971,133

Expenses - Comparative for the periods ending June 30, 2014 and June 30, 2013

Expenses:	June 30, 2014	June 30, 2013
Governmental Activities:		
Instruction	\$8,557,541	\$8,877,530
Student Support Services	503,199	537,061
Instructional Staff Support	524,237	591,446
District Administration	1,044,965	733,727
School Administration	952,564	933,850
Business Support	158,313	577,893
Plant Operation & Maintenance	1,581,915	1,574,992
Student Transportation	1,007,170	994,799
Central Office Support	0	0
Facilities acquisition and construction	0	0
Community Service Activities	163,618	157,651
Depreciation (allocated in fiscal year 2006)		
Interest on Long-term Debt	289,509	312,826
Amortization of Bond Costs	14,037	25,721
Business-Type Activities:		
Food Service	1,022,181	1,043,124
Child Care Services	13,279	29,176
Community Education Services	4231	862
Total expenses	\$15,836,759	\$16,390,658

Comments on General Fund Budget Comparisons

- The District's General Fund Revenues for the fiscal year ended June 30, 2014 totaled \$12,393,205. This is \$3,196,392 more than the \$9,196,813 of revenue that was budgeted in the final working budget. The primary reason for the difference is that GAAP requires our audit to include state contributions to our employee's retirement, health and life insurance. This is called "On-Behalf" revenue. These funds are not sent directly to the District and are not included in the District's budget. The "On-Behalf" contribution for the fiscal year ended June 30, 2014 was \$2,509,048.

The following tables present a comparative summary of revenues and expenses of the General Fund for the fiscal year ended June 30, 2014 and June 30, 2013.

General Fund Revenues:	June 30, 2014	June 30, 2013
Local Revenue Sources:	\$3,047,407	\$2,948,368
Property Tax	\$1,947,475	\$1,887,777
Motor Vehicle Tax	407,294	406,930
Unmined Mineral Tax	50,799	34,421
Utilities Tax	592,132	569,688
Investment Earnings	17,269	20,301
Contributions	1,600	3,040
Other Local Aid	30,838	26,211
State Aide	9,041,912	8,938,333
Federal Aide	39,096	32,648
Total General Fund Revenues	\$12,128,415	\$11,919,349

General Fund Expenditures:	June 30, 2014	June 30, 2013
Instruction	\$7,295,234	\$7,143,105
Student Support Services	342,672	371,289
Instructional Staff Support	459,332	483,442
District Administration	938,424	594,526
School Administration	950,020	932,370
Business Support	281,754	409,710
Plant Operation & Maintenance	1,334,250	1,224,201
Student Transportation	901,684	879,108
Central Office Support		
Community Support		10
Bond Principal & Interest (KISTA)	87,420	89,996
Total expenditures	\$12,590,790	\$12,127,757

General Fund Budget Allocation

Approximately 58% of the general fund expenses were spent on instruction, some of which was directed by the Site Based Decision Making Councils.

Food Service Fund

Food Service expenses totaled \$1,022,181, which exceeded total receipts of \$1,012,689, net of transfers, by \$9,492.

Other Major Funds

Special Revenue fund is categorized as a major fund.

BUDGETARY IMPLICATIONS

In Kentucky, the public school fiscal year is July 1-June 30; other programs, i.e. some federal operate on a different fiscal calendar, but are reflected in the District overall budget. By law the budget must have a minimum 2% contingency. For the Fiscal Year 2013-2014, the District budgeted \$1,573,410 in contingency, which calculates to approximately 14% of the General Fund and Food Service Fund budgets, net of contingency.

The District currently participates in several federal and state grants. Many of these grants are funded on a reimbursement basis. This requires the District to pay the expenses of the grant and then apply for reimbursement. This leaves the District showing a negative end of the month balance in our Special Revenue Account several months throughout the year.

It is extremely important that the District continue to budget conservatively. The District receives approximately 66 percent of its annual General Fund receipts through the SEEK formula. The SEEK forecasts from the state should be considered only an estimate of state revenue. If the state's revenue falls below its own revenue projections, an adjustment will be made in the funding formula. The District should always be prepared for such reductions in funding.

Approximately 24 percent of the District's annual General Fund receipts come from local property taxes. The majority of this revenue does not come to the District until the fifth month of the fiscal year. The General Fund's beginning balance must be used to absorb much of the first four months expenditures. Provisions must always be made to have a significant beginning balance to start the year.

Questions regarding this report should be directed to Tres Settle, Superintendent or to David C. Stokes, Finance Officer located at 283 Main Street, Post Office Box 245, Calhoun, KY 42327, by phone at (270) 273-5257 or by e-mail at tres.settle@mclean.kyschools.us or david.stokes@mclean.kyschools.us.

**MCLEAN COUNTY SCHOOL DISTRICT
STATEMENT OF NET POSITION
JUNE 30, 2014**

Assets	Governmental Activities	Business- Type Activities	Total
Current Assets			
Cash and cash equivalents	\$2,485,067	\$131,463	\$2,616,530
Inventory		93,479	93,479
Receivables:			
Taxes	178,516		178,516
Accounts receivable	13,097		13,097
Intergovernmental – State	54,115		54,115
Intergovernmental – Federal	142,699		142,699
Intergovernmental – Indirect federal		13,584	13,584
Deposit	5,000		5,000
Restricted cash	211,064		211,064
Total current assets	3,089,558	238,526	3,328,084
Noncurrent Assets			
Capital assets, net of accumulated depreciation	13,164,816	114,401	13,279,217
Total noncurrent assets	13,164,816	114,401	13,279,217
Total assets	16,254,374	352,927	16,607,301
Deferred Outflows of Resources			
Deferred savings from refunding bonds	106,167		106,167
Total Deferred Outflows of Resources	106,167	0	106,167
Liabilities			
Current Liabilities			
Accounts payable	150,862	2,092	152,954
KSBIT assessment payable	288,567		288,567
Unearned revenue	169,140	5,494	174,634
Payable from restricted assets	18,145		18,145
Accrued interest	90,346		90,346
Current portion of bond obligations	630,000		630,000
Current portion of capital lease obligations	66,798		66,798
Current portion of accrued sick leave	80,000		80,000
Total current liabilities	1,493,858	7,586	1,501,444
Noncurrent Liabilities			
Noncurrent portion of bond obligations	7,765,000		7,765,000
Noncurrent portion of capital lease obligations	160,876		160,876
Noncurrent portion of accrued sick leave	370,977	6,513	377,490
Total noncurrent liabilities	8,296,853	6,513	8,303,366
Total liabilities	9,790,711	14,099	9,804,810
Net Position			
Net investment in capital assets	4,451,796	114,401	4,566,197
Restricted for:			
Capital projects/debt service	197,919		197,919
Unrestricted	1,920,115	224,427	2,144,542
Total net position	\$6,569,830	\$338,828	\$6,908,658

The accompanying notes are an integral part of these financial statements.

**MCLEAN COUNTY SCHOOL DISTRICT
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2014**

FUNCTIONS/PROGRAMS	Program Revenues			Net (Expense) Revenues and Changes in Net Assets			
	Expenses	Charges for Services	Operating Grants & Contributions	Capital Grants & Contributions	Governmental Activities	Business- Type Activities	Total
Governmental Activities:							
Instruction	\$8,557,541	\$ 39,096	\$ 850,350		(\$7,668,095)		(\$7,668,095)
Support services:							
Student	503,199	14,425	151,777		(336,997)		(336,997)
Instruction staff	524,237		61,274		(462,963)		(462,963)
District administrative	1,044,965		95,545		(949,420)		(949,420)
School administrative	952,584				(952,584)		(952,584)
Business	158,313		162,126		3,813		3,813
Plant operation and maintenance	1,581,915	350	0		(1,581,565)		(1,581,565)
Student transportation	1,007,170		52,173		(954,997)		(954,997)
Facilities acquisition and construction	-			791,781	791,781		791,781
Community service activities	163,618		162,206		(1,412)		(1,412)
Interest on long-term debt	289,509			126,049	(163,460)		(163,460)
Amortization of deferred outflows	14,037				(14,037)		(14,037)
Total governmental activities	14,797,068	53,871	1,535,451	917,830	(12,289,916)	0	(12,289,916)
Business-Type Activities:							
Food service	1,022,181	343,783	667,849			(10,549)	(10,549)
Child care	13,279	11,279				(2,000)	(2,000)
Community education	4,231	0				(4,231)	(4,231)
Total business-type activities	1,039,691	355,062	667,849	0	0	(16,780)	(16,780)
Total primary government	\$15,836,759	\$408,933	\$2,203,300	\$917,830	(12,289,916)	(16,780)	(12,306,696)
General Revenues:							
Taxes:							
					2,195,712		2,195,712
					407,294		407,294
					50,799		50,799
					592,132		592,132
					18,139	1,071	19,210
					17,663		17,663
					231,790		231,790
					9,039,032		9,039,032
					12,552,561	1,071	12,553,632
					33,000	(33,000)	-
					295,645	(48,709)	246,936
					6,274,185	387,537	6,661,722
					\$6,569,830	\$338,828	\$6,908,658

The accompanying notes are an integral part of these financial statements.

**MCLEAN COUNTY SCHOOL DISTRICT
BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2014**

	General Fund	Special Revenue Fund	Construction Fund	Total Nonmajor Funds	Total Governmental Funds
Assets					
Cash and cash equivalents	\$ 2,485,067	\$ -			\$ 2,485,067
Receivables:					
Taxes	178,516				178,516
Accounts receivable	13,097				13,097
Intergovernmental - State		19,309			19,309
Intergovernmental - Federal		142,699			142,699
Intergovernmental - Indirect federal					0
Due from other funds	32,850				32,850
Deposit			\$ 5,000		5,000
Restricted cash			50,840	\$ 160,224	211,064
Total assets	\$ 2,709,530	\$ 162,008	\$ 55,840	\$ 160,224	\$ 3,087,602
Liabilities and Fund Balances					
Liabilities					
Accounts payable	\$150,844	\$18			\$150,862
KSBIT assessment payable	288,567				288,567
Due to other funds		32,850		\$0	32,850
Current portion of accrued sick leave	80,000				80,000
Unearned revenue	40,000	129,140			169,140
Payable from restricted assets			\$18,145	-	18,145
Total liabilities	559,411	162,008	18,145	0	739,564
Fund Balances					
Assigned to:					
Encumbrances					0
Restricted for:					
Capital projects			\$ 37,695	\$ 160,224	197,919
Committed:					
SBDM	65,000				65,000
Pavement sealing and repair	150,000				150,000
Vehicles	420,000				420,000
Unassigned:					
General Fund	1,515,119				1,515,119
Total fund balances	2,150,119	0	37,695	160,224	2,348,038
Total liabilities and fund balances	\$ 2,709,530	\$ 162,008	\$ 55,840	\$ 160,224	\$ 3,087,602

The accompanying notes are an integral part of these financial statements.

**MCLEAN COUNTY SCHOOL DISTRICT
RECONCILIATION OF THE BALANCE SHEET - GOVERNMENTAL FUNDS TO
THE STATEMENT OF NET POSITION
JUNE 30, 2014**

Total fund balance per fund financial statements	\$2,348,038
Amounts reported for governmental activities in the statement of net position are different because:	
Capital assets are not reported in this fund financial statement because they are not current financial resources, but they are reported in the statement of net position.	13,164,816
Certain assets are not reported in this fund financial statement because they are not available to pay current-period expenditures, but they are reported in the statement of net position.	140,973
Certain liabilities (such as bonds payable, capital leases, the long-term portion of accrued sick leave and accrued interest) are not reported in this fund financial statement because they are not due and payable, but they are presented in the statement of net position.	<u>(9,083,997)</u>
Net position for governmental activities	<u><u>\$6,569,830</u></u>

The accompanying notes are an integral part of these financial statements.

**MCLEAN COUNTY SCHOOL DISTRICT
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED JUNE 30, 2014**

	General Fund	Special Revenue Fund	Construction Fund	Total Nonmajor Funds	Total Governmental Funds
Revenues:					
From local sources:					
Taxes:					
Property	\$1,947,475			\$248,237	\$2,195,712
Motor vehicle	407,294				407,294
Unmined mineral	50,799				50,799
Utilities	592,132				592,132
Earnings on investments	17,269	\$38	\$832		18,139
Contributions	1,600	54,004			55,604
Other local revenues	30,838	-			30,838
Intergovernmental - Local					0
Intergovernmental - State	9,041,912	493,382		917,830	10,453,124
Intergovernmental - Indirect federal		805,637			805,637
Intergovernmental - Direct federal	39,096	182,428			221,524
Total revenues	12,128,415	1,535,489	832	1,166,067	14,830,803
Expenditures:					
Current:					
Instruction	7,295,234	884,388			8,179,622
Support services:					
Student	342,672	151,777			494,449
Instruction staff	459,332	61,274			520,606
District administrative	938,424	95,545			1,033,969
School administrative	950,020				950,020
Business	281,754	162,126			443,880
Plant operation and maintenance	1,334,250	-			1,334,250
Student transportation	901,684	52,173			953,857
Community service activities		162,206			162,206
Capital outlay:					
Facilities acquisition and construction			191,384		191,384
Debt service:					
Principal	87,420			750,000	837,420
Interest				284,106	284,106
Total expenditures	12,590,790	1,569,489	191,384	1,034,106	15,385,769
Excess (deficiency) of revenues over (under) expenditures	(462,375)	(34,000)	(190,552)	131,961	(554,966)
Other Financing Sources (Uses)					
Proceeds from bond issues				0	0
Bond discounts				0	0
Insurance proceeds				0	0
Capital leases					0
Sale of equipment	231,790				231,790
Transfers in	33,000	34,000		535,755	602,755
Transfers out	(34,000)			(535,755)	(569,755)
Total other financing sources (uses)	230,790	34,000	0	0	264,790
Net change in fund balance	(231,585)	0	(190,552)	131,961	(290,176)
Fund balance, July 1, 2013	2,381,704	0	228,247	28,263	2,638,214
Fund balance, June 30, 2014	\$2,150,119	\$0	\$37,695	\$160,224	\$2,348,038

The accompanying notes are an integral part of these financial statements.

**MCLEAN COUNTY SCHOOL DISTRICT
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN
FUND BALANCES OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2014**

Net change in total fund balances per fund financial statements	\$ (290,176)
Amounts reported for governmental activities in the statement of activities are different because:	
Capital outlays are reported as expenditures in this fund financial statement because they use current financial resources, but they are presented as assets in the statement of activities and depreciated over their estimated economic lives. The difference is the amount by which depreciation expense is less than capital outlays for the year.	(516,278)
Bond issuance costs, call premiums and discounts are reported as expenditures in this fund financial statement because they are current financial resources, but they are presented as assets in the statement of activities and amortized over the remaining life of the bonds. The difference is the amount by which the actual costs exceeds amortization expenses for the year	(14,037)
Certain accruals do not require the use of current financial resources and, therefore, are not reported as expenditures in the governmental fund statements.	2,306
Bond and capital lease payments are recognized as expenditures of current financial resources in the fund financial statements, but are reductions of liabilities in the statement of net assets.	1,113,830
	<hr/>
Change in net position of governmental activities	<u>\$ 295,645</u>

The accompanying notes are an integral part of these financial statements

**MCLEAN COUNTY SCHOOL DISTRICT
STATEMENT OF NET POSITION
PROPRIETARY FUNDS
JUNE 30, 2014**

	Food Service Fund	Nonmajor Enterprise Funds	Total
Assets			
Current assets			
Cash and cash equivalents	\$129,531	\$1,932	\$131,463
Inventory	93,479	0	93,479
Accounts receivable			
Miscellaneous			0
Intergovernmental - Indirect federal	13,584		13,584
Total current assets	236,594	1,932	238,526
Noncurrent assets			
Capital assets	710,027		710,027
Less: Accumulated depreciation	(595,626)		(595,626)
Total noncurrent assets	114,401	0	114,401
Total assets	350,995	1,932	352,927
Liabilities			
Current liabilities			
Accounts payable	2,028	64	2,092
Due to other funds			0
Unearned revenue	5,494		5,494
Accrued sick leave, current portion			0
Total current liabilities	7,522	64	7,586
Noncurrent liabilities			
Accrued sick leave, noncurrent portion	6,513		6,513
Total noncurrent liabilities	6,513	0	6,513
Total liabilities	14,035	64	14,099
Net Position			
Net investment in capital assets	114,401	0	114,401
Unrestricted	222,559	1,868	224,427
Total net position	336,960	1,868	338,828

The accompanying notes are an integral part of these financial statements.

**MCLEAN COUNTY SCHOOL DISTRICT
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION
PROPRIETARY FUNDS
FOR THE YEAR ENDED JUNE 30, 2014**

	Food Service Fund	Nonmajor Enterprise Funds	Total
Operating Revenues:			
Lunchroom sales	\$343,373		\$343,373
Community service activities		\$11,279	11,279
Other operating revenues	410		410
Total operating revenues	<u>343,783</u>	<u>11,279</u>	<u>355,062</u>
Operating Expenses:			
Salaries and wages	348,361	14,278	362,639
Employee benefits	172,542	1,862	174,404
Purchased professional services	818	50	868
Other purchased services	19,163	629	19,792
Materials and supplies	462,764	691	463,455
Depreciation	18,533	-	18,533
Other operating expenses	0	-	0
Total operating expenses	<u>1,022,181</u>	<u>17,510</u>	<u>1,039,691</u>
Operating income/(loss)	<u>(678,398)</u>	<u>(6,231)</u>	<u>(684,629)</u>
Nonoperating Revenues (Expenses):			
Federal grants	524,711	-	524,711
Donated commodities	56,020	-	56,020
State grants	87,118	-	87,118
Interest income	1,057	14	1,071
Total nonoperating revenues (expenses)	<u>668,906</u>	<u>14</u>	<u>668,920</u>
Income (loss) before transfers	(9,492)	(6,217)	(15,709)
Transfers out	<u>(33,000)</u>		<u>(33,000)</u>
Change in net position	(42,492)	(6,217)	(48,709)
Net position, July 1, 2013	<u>379,452</u>	<u>8,085</u>	<u>387,537</u>
Net position, June 30, 2014	<u><u>\$336,960</u></u>	<u><u>\$1,868</u></u>	<u><u>\$338,828</u></u>

The accompanying notes are an integral part of these financial statements.

**MCLEAN COUNTY SCHOOL DISTRICT
STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
FOR THE YEAR ENDED JUNE 30, 2014**

	Food Service Fund	Nonmajor Enterprise Funds	Total
Cash Flows from Operating Activities			
Cash received from:			
Lunchroom sales	\$343,783		\$343,783
Community service activities		\$11,279	11,279
Cash paid to/for:			
Employees	(442,498)	(16,140)	(458,638)
Supplies	(404,716)	(1,307)	(406,023)
Other activities	(19,981)	(50)	(20,031)
Net cash provided (used) by operating activities	<u>(523,412)</u>	<u>(6,218)</u>	<u>(529,630)</u>
Cash Flows from Noncapital Financing Activities:			
Nonoperating grants received	560,477		560,477
Operating transfers-in (Out)	(33,000)		(33,000)
Net cash provided by noncapital financing activities	<u>527,477</u>		<u>527,477</u>
Cash Flows from Capital and Related Financing Activities			
Purchases of capital assets	(8,101)		(8,101)
	(8,101)		(8,101)
Cash Flows from Investing Activities			
Receipt of interest income	1,057	14	1,071
Net increase (decrease) in cash and cash equivalents	(2,979)	(6,204)	(9,183)
Balances, beginning of year	<u>132,510</u>	<u>8,136</u>	<u>140,646</u>
Balances, end of year	<u><u>\$129,531</u></u>	<u><u>\$1,932</u></u>	<u><u>\$131,463</u></u>
Reconciliation of operating income (loss) to net cash provided (used) by operating activities			
Operating income (loss)	(\$678,398)	(\$6,231)	(\$684,629)
Adjustments to reconcile operating income to net cash provided (used) by operating activities			
Depreciation	18,533		18,533
On behalf payments	78,405		78,405
Commodities received	56,020		56,020
Change in assets and liabilities			
Receivables	0		0
Inventory	0		0
Accounts payable	2,028	13	2,041
Accrued payroll and related expense			0
Other current liabilities	0		0
Deferred revenue	0		0
Net cash provided (used) by operating activities	<u><u>(\$523,412)</u></u>	<u><u>(\$6,218)</u></u>	<u><u>(\$529,630)</u></u>
Schedule of non-cash transactions:			
Donated commodities received from Federal government	\$56,020		
Benefits paid by the state of Kentucky on behalf of District	\$78,405		

The accompanying notes are an integral part of these financial statements.

**MCLEAN COUNTY SCHOOL DISTRICT
STATEMENT OF FIDUCIARY NET POSITION
FIDUCIARY FUNDS
JUNE 30, 2014**

	<u>Agency Fund</u>	<u>Scholarship Private Purpose Trust Funds</u>
Assets		
Cash and cash equivalents	\$242,644	\$8,055
Accounts receivable	1,573	
Certificates of deposit	<u>15,454</u>	
Total assets	<u><u>\$259,671</u></u>	<u>8,055</u>
 Liabilities		
Accounts payable	\$24,879	
Due to student groups	<u>234,792</u>	
Total liabilities	<u><u>\$259,671</u></u>	<u>0</u>
 Net Position		
Held in trust for private purpose		<u><u>\$8,055</u></u>

The accompanying notes are an integral part of these financial statements.

**MCLEAN COUNTY SCHOOL DISTRICT
STATEMENT OF CHANGES IN FIDUCIARY NET POSITION
FIDUCIARY FUNDS
FOR THE YEAR ENDED JUNE 30, 2014**

	<u>Scholarship Private Purpose Trust Funds</u>
Additions	
Contributions:	
Private donations	\$50
Net Investment income (loss)	<u>58</u>
Total additions	108
Deductions	
Scholarship awards	<u>2,500</u>
Change in net position	(2,392)
Net position, beginning	<u>10,447</u>
Net position, ending	<u><u>\$8,055</u></u>

The accompanying notes are an integral part of these financial statements.

MCLEAN COUNTY SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDING JUNE 30, 2014

1. Reporting Entity

The McLean County Board of Education (Board), a five member group, is a level of government which has oversight responsibilities over all activities related to public elementary and secondary school education within the jurisdiction of the McLean County School District (District). The Board receives funding from Local, State and Federal government sources and must comply with the commitment requirements of these funding source entities. However, the District is not included in any other governmental reporting entity, as defined in Section 2100, Codification of Governmental Accounting and Financial Reporting Standards. Board members are elected by the public and have decision making authority, the power to designate management, the responsibility to develop policies which may influence operations and primary accountability for fiscal matters.

The District, for financial purposes, includes all of the funds and account groups relevant to the operation of the McLean County Board of Education. The financial statements presented herein do not include funds of groups and organizations, which although associated with the school system, have not originated within the Board itself such as Band Boosters, Parent-Teacher Associations, etc.

These financial statements present the District and its component units, entities for which the District entity is considered to be financially accountable. Blended component units, although legally separate entities, are in substance, part of the governmental entity's operations and so data from these units would be combined with data of the primary governmental entity. The McLean County School District has one blended component unit.

Blended Component Unit:

McLean County School District Finance Corporation - In 1989, the McLean County, Kentucky, Board of Education resolved to authorize the establishment of the McLean County School District Finance Corporation (a nonprofit, nonstock, public and charitable corporation organized under the School Bond Act and KRS 273 and KRS Section 58.180) as an agency of the Board for financing the costs of school building facilities. The Board Members of the McLean County Board of Education also comprise the Corporation's Board of Directors.

2. Summary of Significant Accounting Policies

(a) Basis of Presentation

Government-wide Financial Statements – The statement of net position and the statement of activities display information about the District as a whole. These statements include the financial activities of the primary government, except for fiduciary funds. The statements distinguish between those activities of the District that are governmental and those that are considered business-type activities. The effect of interfund activity has been substantially removed from these statements.

The government-wide statements are prepared using the economic resources measurement focus. This is the same approach used in the preparation of the proprietary fund financial statements, but differs from the manner in which governmental fund financial statements are prepared. Governmental fund financial statements, therefore, include reconciliation, with brief explanations, to better identify the relationship between the government-wide statements and the statements for governmental funds.

The government-wide statement of activities presents a comparison between direct expenses and program revenues for each segment of the business-type activities of the District and for each function or program of the District's governmental activities. Direct expenses are those that are specifically associated with a service, program or department and are, therefore, clearly identifiable to a particular function. Program revenues include charges paid by the recipient of the goods or services offered by the program and grants and contributions that are restricted to meeting the operational or capital requirements of a particular program. Revenues that are not classified as program revenues are presented as general revenues of the District, with certain limited exceptions. The comparison of direct expenses with program revenues identifies the extent to which each business segment or governmental function is self-financing or draws from the general revenues of the District.

MCLEAN COUNTY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

FOR THE YEAR ENDING JUNE 30, 2014

2. Summary of Significant Accounting Policies, continued

(a) Basis of Presentation, continued

Fund Financial Statements – Fund financial statements report detailed information about the District. The focus of governmental and enterprise fund financial statements is on major funds rather than reporting funds by type. Each major fund is presented in a separate column. Nonmajor funds are aggregated and presented in a single column. Fiduciary funds are reported by fund type.

The financial reporting treatment applied to a fund is determined by its measurement focus. All governmental funds are accounted for by using a current financial resources measurement focus. With this measurement focus, only current assets and current liabilities generally are included on the balance sheet. Operating statements of these funds present increases (i.e., revenues and other financing sources) and decreases (i.e., expenditures and other financing uses) in the fund balance.

The proprietary fund is accounted for on a flow of economic resources measurement focus. With this measurement focus, all assets and liabilities associated with the operation of these funds are included on the balance sheet. Proprietary fund type operating statements present increases (i.e., revenues) and decreases (i.e., expenses) in retained earnings. Operating revenues are those revenues that are generated directly from the primary activity of the proprietary fund. For the District, those revenues are primarily charges for meals provided by the various schools. All revenues not meeting this definition are reported as nonoperating revenues. The District applies all applicable FASB pronouncements in accounting and reporting for its proprietary operations.

When both restricted and unrestricted resources are available for use, it is the District's policy to use restricted resources first, then unrestricted resources as they are needed.

The District had the following funds:

Governmental Fund Types

- 1) The General Fund is the main operating fund of the Board. It accounts for financial resources used for general types of operations. This is a budgeted fund, and any fund balances are considered as resources available for use. This is a major fund of the District.
- 2) The Special Revenue (Grant) Funds account for proceeds of specific revenue sources (other than expendable trusts or major capital projects) that are legally restricted to disbursements for specified purposes. It includes federal financial programs where unused balances are returned to the grantor at the close of the specified project periods as well as the state grant programs. Project accounting is employed to maintain integrity for the various sources of funds. The separate projects of federally-funded grant programs are identified in the Schedule of Expenditures of Federal Awards as referenced in the table of contents. This is a major fund of the District.

MCLEAN COUNTY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

FOR THE YEAR ENDING JUNE 30, 2014

2. Summary of Significant Accounting Policies, continued

(a) Basis of Presentation, continued

Governmental Fund Types, continued

- 3) Capital Project Funds are used to account for financial resources to be used for the acquisition or construction of major capital facilities and equipment (other than those financed by a proprietary fund).
 - (a) The Support Education Excellence in Kentucky (SEEK) Capital Outlay Fund receives those funds designated by the state as capital outlay funds and is restricted for use in financing projects identified in the District's facility plan and for the corresponding debt service.
 - (b) Facility Support Program (FSPK) Fund accounts for funds generated by the building tax levy required to participate in the School Facilities Construction Commission's construction funding and state matching funds, where applicable. Funds may be used for projects identified in the District's facility plan and for the corresponding debt service.
 - (c) The Construction Fund accounts for proceeds from sales of bonds and other revenues to be used for authorized construction. This is a major fund of the District.
- 4) The Debt Service Fund is used to account for the accumulation of resources for, and the payment of, general long-term debt principal, interest and related costs; and for the payment of interest on general obligation notes payable, as required by Kentucky Law.

Proprietary Fund Type

Enterprise Funds are used to account for those operations that are financed and operated in a manner similar to private business or where the Board has decided that the determination of revenues earned, costs incurred and/or net income is necessary for management accountability. The District has three enterprise funds: the School Food Service Fund, Child Care Fund and the Community Education Fund.

- 1) The School Food Service Fund is used to account for school food service activities, including the National School Lunch Program, which is conducted in cooperation with the U.S. Department of Agriculture (USDA). Amounts have been recorded for in-kind contribution of commodities from the USDA. The School Food Service Fund is a major fund.
- 2) The Community Education Fund is used to account for activities and/or classes offered to the community.
- 3) The Child Care Fund is used to account for activities in the District's three licensed child care centers.

Fiduciary Fund Types

Fiduciary Funds account for assets held by the District in a trustee capacity (trust funds) or as an agent on behalf of others (agency funds). The Private Purpose Trust Funds are used to account for three separate scholarship funds, the Hopkins Memorial, Cardwell Memorial and Muster Memorial scholarships. All resources of these funds may be used to award scholarships in the areas specified in the trust arrangements.

The Agency Fund is custodial in nature and does not present results of operations or have a measurement focus. Agency funds are accounted for using the modified accrual basis of accounting. This fund is used to account for assets that the government holds for others in an agency capacity. The Agency Fund consists of activity funds and accounts for activities of student groups and other types of activities requiring clearing accounts. These funds are accounted for in accordance with *Uniform Program of Accounting for School Activity Funds*.

MCLEAN COUNTY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

FOR THE YEAR ENDING JUNE 30, 2014

2. Summary of Significant Accounting Policies, continued

(b) Basis of Accounting

The government-wide financial statements, as well as the proprietary fund and fiduciary fund financial statements, are reported using the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows.

Governmental fund financial statements are reported using the modified accrual basis of accounting, whereby revenues are recognized when they become both measurable and available. Revenues are considered to be "available" when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the District considers revenues to be available if they are collected within 60 days of the end of the current fiscal year. Deferred revenue arises when assets are recognized before revenue recognition criteria have been satisfied. Expenditures are generally recognized when the related liability is incurred.

Nonexchange transactions, in which the District receives value without directly giving equal value in return, include property taxes, grants, entitlements and donations. On an accrual basis, revenue from property taxes is recognized in the fiscal year for which the taxes are levied. Revenue from grants, entitlements and donations is recognized in the fiscal year in which all eligibility requirements have been satisfied. Eligibility requirements include; (1) timing requirements, which specify the year when the resources are required to be used or the fiscal year when use is first permitted, (2) matching requirements, in which the District must provide local resources to be used for a specified purpose, and (3) expenditure requirements, in which the resources are provided to the District on a reimbursement basis. On a modified accrual basis, revenues from nonexchange transactions must also be available before they can be recognized.

(c) Capital Assets

General capital assets are those assets not specifically related to activities reported in the proprietary funds. These assets generally result from expenditures in the governmental funds. These assets are reported in the governmental activities column of the government-wide statement of net position but are not reported in the governmental fund financial statements. Capital assets utilized by the proprietary funds are reported both in the business-type activities column of the government-wide statement of net position and in the respective funds.

All capital assets are capitalized at cost (or estimated historical cost) and updated for additions and retirements during the year. Donated fixed assets are recorded at their fair market values as of the date received. The District maintains a capitalization threshold of one thousand dollars (\$1,000) with the exception of computers, digital cameras and real property for which there is no threshold. The District does not possess any infrastructure. Improvements are capitalized; the cost of normal maintenance and repairs that do not add to the value of the asset or materially extend an asset's life are not capitalized.

All reported capital assets are depreciated. Improvements are depreciated over the remaining useful lives of the related capital assets. Depreciation is computed using the straight-line method over the following useful lives for both general capital assets and proprietary fund assets:

<u>Description</u>	<u>Estimated Lives</u>
Buildings and improvements	25-50 years
Land improvements	20 years
Technology equipment	5 years
Vehicles	5-10 years
Food service equipment	10-12 years
Furniture and fixtures	7 years
Other	10 years

MCLEAN COUNTY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

FOR THE YEAR ENDING JUNE 30, 2014

2. Summary of Significant Accounting Policies, continued

(d) Cash and Cash Equivalents/Restricted Cash/Investments

The Board considers demand deposits, money market funds, and other investments with an original maturity of 90 days or less, to be cash equivalents. Cash is restricted in the special revenue funds per grant and other agreements, in the capital projects funds per state requirements and in debt service funds per debt agreements (See Notes 4 and 5)

Cash balances of the District's funds are pooled and invested. Interest earned from investments purchased with pooled cash is allocated to the various funds based on the fund's average cash balance. Funds with negative cash balances are not charged interest.

As security for deposits of the District, any bank doing such business is required to pledge securities in an amount to exceed funds on deposit by the District. In addition, the District's accounts are insured, subject to FDIC coverage terms and limitations. (See Note 4)

State statutes authorize the District to invest in obligations of the U.S. Treasury, U.S. Agencies, certain federal instruments, commercial bank's certificates of deposit, savings and loan deposits, repurchase agreements, and the Commonwealth of Kentucky Investment Pool.

The District's general policy is to report money market investments and short-term participating interest-earning investment contracts at amortized cost and to report nonparticipating interest-earning investment contracts using a cost-based measure. However, if the fair value of an investment is significantly affected by the impairment of the credit standing of the issuer or by other factors, it is reported at fair value. All other investments are reported at fair value unless a legal contract exists which guarantees a higher value. The term "short-term" refers to investments, which have a remaining term of one year or less at time of purchase. The term "nonparticipating" means that the investment's value does not vary with market interest rate changes.

(e) Inventories/Commodities

Supplies and materials are charged to expenditures when purchased with the exception of the proprietary funds, which records inventory using the accrual basis of accounting. Inventories are valued at cost or at their estimated fair value at the date of donation, using the first-in, first-out method. For the purposes of the statement of cash flows, federal grants received do not include noncash commodities received in the amount of \$56,020.

(f) Accrued Liabilities/Long-Term Obligations/Deferred Outflows of Resources

All payables, accrued liabilities and long-term obligations are reported in the government-wide financial statements, and all payables, accrued liabilities and long-term obligations payable from proprietary funds are reported on the proprietary fund financial statements. Bond discounts and premiums are recorded as deferred outflows of resources (deferred savings from refunding bonds) in the government-wide financial statements and amortized on a straight-line basis over the life of the bonds.

In general, payables and accrued liabilities that will be paid from governmental funds are reported on the governmental fund financial statements regardless of whether they will be liquidated with current resources. However, claims and judgments, the noncurrent portion of capital leases, accumulated sick leave, contractually required pension contributions and special termination benefits that will be paid from governmental funds are reported as a liability in the fund financial statements only to the extent that they will be paid with current, expendable, available financial resources. In general, payments made within sixty days after year-end are considered to have been made with current available financial resources. Bonds and other long-term obligations that will be paid from governmental funds are not recognized as a liability in the fund financial statements until due.

MCLEAN COUNTY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

FOR THE YEAR ENDING JUNE 30, 2014

2. Summary of Significant Accounting Policies, continued

(g) Net Position and Fund Balance

District-Wide Financial Statements

Net position on the Statement of Net Position includes the following:

Net investment in capital assets – The component of net position that reports the difference between capital assets less both the accumulated depreciation and the outstanding balance of debt, excluding unspent proceeds, that is directly attributable to the acquisition, construction or improvement of these capital assets.

Restricted for Capital Projects/Debt Service – The component of net position that reports the financial resources restricted to pay for construction activities or related debt service.

Unrestricted – The difference between the assets and liabilities that is not reported in Net investment in Capital Assets, and Net Position Restricted for Capital Projects/Debt Service.

Governmental Fund Financial Statements

In July 2010, the District adopted Statement of Governmental Accounting standards No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*. Accordingly, in the fund financial statements, governmental funds report fund balances as nonspendable, restricted, committed, assigned, or unassigned fund balance. Also, the District has established the order of assigned, committed and restricted when an expenditure is incurred for purposes for which amounts in any of those unrestricted fund balance classifications could be used.

Nonspendable fund balances are those amounts that cannot be spent because they are either: (1) generally, amounts that are not expected to be converted to cash, such as inventories or prepaid amounts or (2) amounts that are required to be maintained intact, such as the principal of a permanent fund. The District did not have a nonspendable fund balance at June 30, 2014.

Restricted fund balances arise when constraints placed on the use of resources are either externally imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulations of other governments or imposed by law through constitutional provisions or enabling legislation. At June 30, 2014, the District had \$37,695 restricted in the Construction Fund and \$160,224 restricted in the SEEK fund for capital projects.

Committed fund balances are those amounts that can only be used for specific purposes pursuant to constraints imposed by formal action of the government's highest level of decision-making authority, which, for the District is the Board of Education. The Board of Education must approve by majority vote the establishment (and modification or rescinding) of a fund balance commitment. At June 30, 2014, the District had \$65,000 committed as carryover for SBDM, \$150,000 for pavement sealing and repairs and \$420,000 toward future vehicle purchases.

Assigned fund balances are those amounts that are constrained by the government's *intent* to be used for specific purposes, but are neither restricted nor committed. The Board of Education allows program supervisors to complete purchase orders which results in the encumbrance of funds. Assigned fund balance also includes (a) all remaining amounts (except for negative balances) that are reported in governmental funds, other than the general fund, that are not classified as nonspendable and are neither restricted nor committed and (b) amounts in the general fund that are intended to be used for a specific purpose. The District had no assignments at June 30, 2014.

Unassigned fund balance is the residual classification for the general fund. This classification represents fund balance that has not been assigned to other funds and that has not been restricted, committed, or assigned to specific purposes within the general fund.

MCLEAN COUNTY SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDING JUNE 30, 2014

2. Summary of Significant Accounting Policies, continued

(h) Interfund Activity

Exchange transactions between funds are reported as revenues in the seller funds and as expenditures/expenses in the purchaser funds. Flows of cash or goods from one fund to another without a requirement for repayment are reported as interfund transfers. Interfund transfers are reported as other financing sources/uses in governmental funds and as non-operating revenues/expenses in proprietary funds. Repayments from funds responsible for particular expenditures/expenses to the funds that initially paid for them are not presented on the financial statements.

Activity between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as "due to/from other funds". Any residual balances outstanding between the governmental activities and business-type activities are reported in the government-wide financial statements as "internal balances."

(i) Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect reported amounts of assets, liabilities, fund balances, and disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenditures during the reporting period. Actual results could differ from those estimates.

(j) Compensated Absences (Accrued Sick Leave)

The McLean County School District allows employees to accumulate and carry over sick days from year to year. The maximum number of days which may be earned per year vary from seven to ten days depending upon employment terms. A maximum of two personal days may be added to the sick days carryover each year. The accumulated amount of days that may be carried over from year to year is unlimited. Upon retirement from the school system, employees will receive an amount up to thirty percent (30%) of the value of accumulated sick leave. Separation of employment for any reason other than retirement results in the employee forfeiting all accumulated sick and personal days. Sick leave benefits are accrued as a liability using the vesting method. An accrual for earned sick leave is made to the extent that it is probable that the benefits will result in termination payments. It is deemed probable that benefits will be paid to certified employees with twenty or more years of experience and classified employees with ten or more years of experience.

The entire accrued sick leave liability is reported on the government-wide financial statements. For governmental fund financial statements, the current portion of accrued sick leave is the amount expected to be paid using expendable available resources. These amounts are recorded in the account "accrued sick leave" in the general fund. The noncurrent portion of the liability is not reported.

(k) Encumbrance Accounting

Encumbrances are not liabilities and, therefore, are not recorded as expenditures until receipt of materials or services. For budgetary purposes, appropriations lapse at fiscal year-end and outstanding encumbrances at year-end are re-appropriated in the next year. An assignment of fund balance equal to outstanding encumbrances at year-end is provided for at June 30, 2014. Accordingly, no differences exist between actual results and the applicable budgetary data presented in the accompanying combined financial statements.

3. Property Taxes

Property taxes collected are recorded as revenues in the Fund for which they were levied. Each year, property taxes are levied on October 1, based on assessments as of January 1 prepared by the McLean County property valuation administrator. The taxes are payable on November 1. The tax rates placed in effect are 53.9 cents per \$100 of

MCLEAN COUNTY SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDING JUNE 30, 2014

3. Property Taxes, continued

assessed valuation on real estate and 53.9 cents per \$100 on tangible property, of which 6.0 cents is for participation in the Facility Support Program, and 51.5 cents per \$100 of assessed valuation on motor vehicles.

4. Deposits

At June 30, 2014, the carrying amount of the District's deposits was \$ 3,093,407 (excluding cash on hand of \$340) and the bank balance was \$3,848,968. Of the bank balances, \$338,261 was insured by federal depository insurance and \$3,510,707 was covered by collateral held by the pledging bank's agent.

The District's deposits at June 30, 2014 consisted of the following:

	<u>Bank Balance</u>	<u>Book Balance</u>
First Security Bank	\$ 70,344	\$ 66,159
Independence Bank	3,760,626	3,009,485
Sacramento Deposit Bank	17,998	17,763
	<u><u>\$ 3,848,968</u></u>	<u><u>\$ 3,093,407</u></u>
Reported in the financial statements:		
Governmental funds - Cash and cash equivalents		\$ 2,696,131
Proprietary funds (excluding cash on hand, \$340)		131,123
Fiduciary funds - Cash and cash equivalents		250,699
- Certificate of deposit		15,454
		<u><u>\$ 3,093,407</u></u>

5. Restricted Cash

Restricted cash at June 30, 2014 consists of the following:

SEEK Capital Outlay Fund (for capital projects)	\$ 160,224
Construction fund (for capital projects)	50,840
Total Restricted Cash	<u><u>\$ 211,064</u></u>

MCLEAN COUNTY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

FOR THE YEAR ENDING JUNE 30, 2014

6. Capital Assets

During the year ended June 30, 2014, the following changes occurred in capital assets:

<u>Governmental Activities:</u>	Balance July 1, 2013	Additions	Deductions	Balance June 30, 2014
Not depreciated:				
Land	\$ 65,267	\$ -	\$ -	\$ 65,267
Construction in progress	-	116,375	-	116,375
Total not being depreciated	65,267	116,375	-	181,642
Depreciated:				
Land improvements	1,019,876	-	-	1,019,876
Buildings and improvements	21,784,407	126,072	-	21,910,479
Technology equipment	1,652,087	211,273	-	1,863,360
Vehicles	2,336,725	100,270	-	2,436,995
General	592,393	5,724	-	598,117
Total being depreciated	27,385,488	443,339	-	27,828,827
Less: accumulated depreciation				
Land improvements	796,381	20,850		817,231
Buildings and improvements	9,758,121	714,953		10,473,074
Technology equipment	1,327,698	157,353		1,485,051
Vehicles	1,470,595	163,159		1,633,754
General	416,865	19,678		436,543
Total accumulated depreciation	13,769,660	1,075,993	-	14,845,653
Depreciated assets, net	13,615,828	(632,654)	-	12,983,174
Governmental Activities Capital Assets - Net	<u>\$ 13,681,095</u>	<u>\$ (516,279)</u>	<u>\$ -</u>	<u>\$ 13,164,816</u>
Business-Type Activities:				
Depreciated:				
Food service equipment	\$ 683,116	\$ 7,411	\$ -	\$ 690,527
Technology equipment	18,810	690	-	19,500
Total being depreciated	701,926	8,101	-	710,027
Less: accumulated depreciation				
Food service equipment	559,199	17,962	-	577,161
Technology equipment	17,894	571	-	18,465
Total accumulated depreciation	577,093	18,533	-	595,626
Business-Type Activities Capital Assets - Net	<u>\$ 124,833</u>	<u>\$ (10,432)</u>	<u>\$ -</u>	<u>\$ 114,401</u>

MCLEAN COUNTY SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDING JUNE 30, 2014

6. Capital Assets, continued

Depreciation expense was charged to governmental functions as follows:

Instruction	\$ 586,359
Support services:	
Student	9,140
Instruction support services	4,439
District administration	13,616
School administration	3,172
Business	1,433
Plant operation and maintenance	293,358
Student transportation	161,908
Community service activities	2,568
	<hr/>
Total depreciation expense	<u>\$ 1,075,993</u>

7. Long-Term Debt

Revenue Bonds

The District issues debt to provide funds for the acquisition and construction of major capital facilities and improvements. The purpose, original amounts, issue dates, and interest rates are summarized below:

<u>Issue</u>	<u>Original Amount</u>	<u>Interest Rates</u>
Refunding Issue of August, 2002	\$ 3,370,000	1.35% - 3.80%
Issue of December, 2005	430,000	4.00% - 4.25%
Issue of July, 2006	1,230,000	3.75% - 4.40%
Refunding Issue of March, 2008	1,625,000	2.25% - 3.40%
Issue of April, 2008	1,945,000	3.00% - 3.75%
Refunding Issue of March, 2009	1,025,000	2.00% - 3.50%
Refunding Issue of October 2011	2,530,000	1.00% - 2.625%
Issue of June 2012	1,410,000	1.05% - 3.30%

McLean County School District Finance Corporation School Building Refunding Revenue Bonds, Series of 2002, dated August 1, 2002 in the amount of \$3,370,000, were issued for the purpose of refunding and defeasing the McLean County School District Finance Corporation School Building Revenue Bonds, Series of 1994. The KSFCC is participating in approximately 37% of the debt service of the bonds. Net proceeds of \$3,299,000 were placed in an escrow account from which investments were purchased for the purpose of generating resources for the future debt service payments on \$3,025,000 of refunded debt. As a result, \$3,025,000 of the McLean County School District Finance Corporation School Building Revenue Bonds, Series of 1994B are considered to be defeased and the liability has been removed from the long-term debt. This advance refunding was undertaken to reduce total debt service payments over the next twelve years by \$238,214 and resulted in an economic gain of \$201,019. During 2014 the in-substance defeased debt was paid in full

MCLEAN COUNTY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

FOR THE YEAR ENDING JUNE 30, 2014

7. Long-Term Debt, continued

Revenue Bonds, continued

McLean County School District Finance Corporation School Building Revenue Bonds, Series of 2005, dated December 28, 2005 in the amount of \$430,000 were issued for the purpose of financing the cost, not otherwise provided, to complete improvements at McLean County High School and Livermore Elementary School. The KSFCC is not participating in the debt service of the bonds.

McLean County School District Finance Corporation School Building Revenue Bonds, Series of 2006, dated July 1, 2006 in the amount of \$1,230,000 were issued for the purpose of financing improvements at Sacramento Elementary School. The KFSCC is liable for 100% of the debt service of the bonds.

McLean County School District Finance Corporation School Building Refunding Revenue Bonds, Series of 2008, dated March 1, 2008 in the amount of \$1,625,000, were issued for the purpose of refunding and defeasing the McLean County School District Finance Corporation School Building Revenue Bonds, Series of 1998, which have been paid in full. The KSFCC is participating in approximately 9% of the debt service of the bonds. This current refunding was undertaken to reduce total debt service payments over the next ten years by \$90,554 and resulted in an economic gain of \$71,545.

McLean County School District Finance Corporation School Building Revenue Bonds, Series of 2008, dated April 1, 2008 in the amount of \$1,945,000 were issued for the purpose of financing HVAC replacement at the McLean County High School. The KFSCC is participating in approximately 56% of the debt service of the bonds.

McLean County School District Finance Corporation School Building Refunding Revenue Bonds, Series of 2009, dated March 1, 2009 in the amount of \$1,025,000, were issued for the purpose of refunding and defeasing the McLean County School District Finance Corporation School Building Revenue Bonds, Series of 1999, which have been paid in full. The KSFCC is participating in approximately 63% of the debt service of the bonds. This current refunding was undertaken to reduce total debt service payments over the next ten years by \$45,934 and resulted in an economic gain of \$36,989.

McLean County School District Finance Corporation School Building Refunding Revenue Bonds, Series of 2011, dated October 1, 2011 in the amount of \$2,530,000, were issued for the purpose of refunding and defeasing the McLean County School District Finance Corporation School Building Revenue Bonds, Series of 2003. Net proceeds of \$2,468,174 were placed in an escrow account from which investments were purchased for the purpose of generating resources for the future debt service payments on \$2,320,000 of refunded debt. As a result, \$2,320,000 of the McLean County School District Finance Corporation School Building Revenue Bonds, Series of 2003 are considered to be defeased and the liability has been removed from the long-term debt. This advance refunding was undertaken to reduce total debt service payments over the next twelve years by \$228,762 and resulted in an economic gain of \$197,103. The KSFCC is not participating in the debt service of the bonds. In February, 2013, the remaining balance of the defeased 2003 bonds was redeemed.

McLean County School District Finance Corporation School Building Revenue Bonds, Series of 2012, dated June 1, 2012 in the amount of \$1,410,000 were issued for the purpose of financing HVAC replacement at the Livermore Elementary School. The KFSCC is liable for 100% of the debt service of the bonds.

Participation Agreements

The District entered into "participation agreements" with the Kentucky School Facility Construction Commission. The Commission was created by the Kentucky Legislature for the purpose of assisting local school districts in meeting school construction needs. Receipts from the KSFCC are recorded as intergovernmental-state revenue in the Debt Service Fund. The table below sets forth the amount to be paid by the District and the Commission for each year until maturity of all bonds issues (see note 12).

MCLEAN COUNTY SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDING JUNE 30, 2014

7. Long-Term Debt, continued

Maturities

The annual debt service requirements to maturity for bonds payable, as of June 30, 2014 are as follows:

YEAR	McLean County School District		School Facility Construction Commission		Total		TOTAL
	PRINCIPAL	INTEREST	PRINCIPAL	INTEREST	PRINCIPAL	INTEREST	
2014-15	\$ 389,194	\$ 145,366	\$ 240,806	\$ 114,402	\$ 630,000	\$ 259,768	\$ 889,768
2015-16	402,959	133,991	247,041	107,537	650,000	241,528	891,528
2016-17	416,261	121,913	253,739	100,207	670,000	222,120	892,120
2017-18	429,298	109,065	260,702	92,615	690,000	201,680	891,680
2018-19	440,682	95,484	259,318	83,757	700,000	179,241	879,241
2019-20	457,415	85,636	187,585	74,894	645,000	160,530	805,530
2020-21	467,450	75,282	192,550	68,499	660,000	143,781	803,781
2021-22	482,149	63,739	197,851	61,768	680,000	125,507	805,507
2022-23	491,727	51,387	208,273	54,916	700,000	106,303	806,303
2023-24	215,985	38,000	214,015	47,355	430,000	85,355	515,355
2024-25	224,956	29,501	225,044	39,504	450,000	69,005	519,005
2025-26	228,665	20,665	231,335	31,265	460,000	51,930	511,930
2026-27	153,154	11,715	216,846	23,227	370,000	34,942	404,942
2027-28	159,251	5,972	155,749	16,626	315,000	22,598	337,598
2028-29	-	-	80,000	11,385	80,000	11,385	91,385
2029-30	-	-	85,000	8,745	85,000	8,745	93,745
2030-31	-	-	90,000	5,940	90,000	5,940	95,940
2031-32	-	-	90,000	2,970	90,000	2,970	92,970
	<u>\$4,959,146</u>	<u>\$ 987,716</u>	<u>\$3,435,854</u>	<u>\$ 945,612</u>	<u>\$ 8,395,000</u>	<u>\$1,933,328</u>	<u>\$ 10,328,328</u>

Other Debt

The Kentucky School Boards Insurance Trust (KSBIT) has notified all past and present members that they will be assessed to make up for a growing deficit in the Workers' Compensation Self-Insurance and/or Property and Liability pools. The District has recorded a liability of \$288,567 (\$125,482 for Property and Liability coverage and \$163,085 for Workers' Compensation liability) and amounts paid in full in August, 2014.

MCLEAN COUNTY SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDING JUNE 30, 2014

7. Long-Term Debt, continued

During the year ended June 30, 2014, the following changes occurred in the long-term debt:

	Balance July 1, 2013	Additions	Deletions	Balance June 30, 2014	Due Within One Year
Government activities					
Revenue Bonds:					
Issue of Aug. 2002	\$ 370,000	\$ -	\$ 370,000	\$ -	-
Issue of Dec. 2005	390,000	-	10,000	380,000	10,000
Issue of July 2006	955,000	-	55,000	900,000	55,000
Issue of Mar. 2008	1,165,000	-	110,000	1,055,000	245,000
Issue of Apr. 2008	1,690,000	-	50,000	1,640,000	55,000
Issue of Feb 2009	750,000	-	65,000	685,000	135,000
Issue of Oct 2011	2,475,000	-	30,000	2,445,000	70,000
Issue of June 2012	1,350,000	-	60,000	1,290,000	60,000
Total bonds	9,145,000	-	750,000	8,395,000	630,000
Capital leases	304,504		76,830	227,674	66,798
Compensated absences	450,977	53,932 (a)	53,932	450,977	80,000
	<u>\$ 9,900,481</u>	<u>\$ 53,932</u>	<u>\$ 880,762</u>	<u>\$ 9,073,651</u>	<u>\$ 776,798</u>
Business-type activities					
Compensated absences	<u>\$ 6,513</u>	<u>\$ 47</u>	<u>\$ 47</u>	<u>\$ 6,513</u>	<u>\$ -</u>

(a) net of increases/decreases due to transfer to or from other districts.

8. Capital Lease Obligations

The District has entered into various lease agreements with KISTA for financing the acquisitions of school buses. The KISTA lease payments are paid by the General Fund and reported as debt service. The following is an analysis of leased property under capital leases by class:

KISTA Leases	Class of Property	Cost	Accumulated Depreciation
2004, 2005, 2006B, 2008, 2009, 2010	Vehicles(10 buses)	\$769,184	\$539,711

MCLEAN COUNTY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

FOR THE YEAR ENDING JUNE 30, 2014

8. Capital Lease Obligations, continued

The following is a schedule by years of the future minimum lease payments under the capital leases together with the present value of the net minimum lease payments as of June 30, 2014:

Year Ending June 30,	Capital Lease Obligations
2015	\$ 74,835
2016	58,206
2017	54,748
2018	36,221
2019	16,393
2020	8,185
Total minimum lease payments	248,588
Less: Amount representing interest	(20,914)
Present Value of Net Minimum Lease Payments	<u>\$ 227,674</u>

9. Retirement Plans

KTRS

The McLean County School District contributes to the Teachers' Retirement System of Kentucky (KTRS), a cost-sharing, multiple-employer defined benefit pension plan. KTRS administers retirement and disability annuities, and death and survivor benefits to employees and beneficiaries of employees of the public school systems and other public educational agencies in Kentucky. KTRS requires that members of KTRS occupy a position requiring either a four (4) year college degree or certification by KY Department of Education (KDE). KTRS was created by the 1938 General Assembly and is governed by Chapter 161 Section 220 through Chapter 161 Section 990 of the Kentucky Revised Statutes (KRS). KTRS issues a publicly available financial report that includes financial statements and required supplementary information for the defined benefit pension plan. That report can be obtained by writing to Kentucky Teachers' Retirement System, 479 Versailles Road, Frankfort, KY 40601 or from the KTRS web site at <http://www.ktrs.ky.gov/>.

Funding policy - Contribution rates are established by KRS. Members are required to contribute 11.355% of their salaries to KTRS. The Commonwealth of Kentucky is required to contribute 13.105% for employees hired before July 1, 2008 and 14.05% for employees started their account after July 1, 2008 for employees not paid with federal funds. If employees are paid salaries by federal programs, those programs pay the respective matching percentages.

The McLean County School District's total payroll for the year was \$8,772,823. The payroll for employees covered under KTRS was \$6,836,295. For the year ended June 30, 2014, the Commonwealth contributed \$842,321 to KTRS for the benefit of our participating employees. The District's contributions to KTRS for the years ending June 30, 2014, 2013 and 2012 were \$70,919, \$161,075 and \$109,206, respectively, which represent those employees covered by federal programs.

CERS

Substantially, all other employees (classified personnel) are covered under the County Employees Retirement System (CERS), a cost-sharing, multiple-employer defined benefit plan administered by the Board of Trustees of Kentucky Retirement Systems (KRS). CERS provides retirement, disability, and death benefits to plan members. Retirement benefits may be extended to beneficiaries of plan members under certain circumstances. Cost-of-living adjustments (COLA) are provided at the discretion of the State legislature. Section 61.645 of the Kentucky Revised Statutes assigns the authority to establish and amend benefit provisions to the KRS Board of Trustees. The Kentucky Retirement System issues a publicly available financial report that includes financial statements and required

MCLEAN COUNTY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

FOR THE YEAR ENDING JUNE 30, 2014

9. Retirement Plans, continued

CERS, continued

supplementary information for CERS. That report may be obtained by writing to Kentucky Retirement Systems, 1260 Louisville Road, Frankfort, Kentucky 40601 or by calling 1-502-564-4646.

Plan members who began participation before September 1, 2008 are required to contribute 5% of their annual creditable compensation. An additional 1% non-refundable health insurance contribution is required for employees who begin participation on or after September 1, 2008. The District is required to contribute at an actuarially determined rate. The current rate is 18.89% of annual covered payroll. The contribution requirements of plan members and the District are established and may be amended by KRS Board of Trustees. The District's contributions to CERS for the years ended June 30, 2014, 2013 and 2012 were \$356,181, \$380,446 and \$384,603, respectively, equal to the required contributions for each year.

Defined Contribution

The District makes available various 401(k) and 403(b) defined contribution pension plans for all regular full-time and part-time employees. These Plans are administered by independent third party administrators. Employees are allowed to contribute any amount to the Plans up to the Internal Revenue Code maximum allowable amounts. The District does not contribute to the plans but they retain authority to amend or terminate these plans. During the year ended June 30, 2014, employees of the District contributed \$43,072 to the 401(k) plans and \$22,602 to the 403(b) plans.

10. Deferred Compensation

The District offers its employees a deferred compensation plan created in accordance with Internal Revenue Code Section 457. The Plan, available to all employees, permits them to defer a portion of their salary until future years. This deferred compensation is not available to employees until termination, retirement, death or unforeseeable emergency. GASB Statement No. 32, *Accounting and Financial Reporting for Internal Revenue Code Section 457 Deferred Compensation Plans*, allows entities with little or no administering involvement and who do not perform the investing functions for these plans to omit plan assets and related liabilities from their financial statements. The District therefore does not show these assets and liabilities on its financial statements. The District does not contribute to these plans, and employees of the District contributed \$6,005 to these plans during the year ended June 30, 2014.

11. Post Employment Health Care Benefits

Plan description – In addition to the pension benefits described in Note 9, Kentucky Revised Statute 161.675 requires KTRS to provide access to post-retirement healthcare benefits to eligible members and dependents. The KTRS Medical Insurance benefit is a cost-sharing multiple employer defined benefit plan. Changes made to the medical plan may be made by the KTRS Board of Trustees, the Kentucky Department of Employee Insurance and the General Assembly.

To be eligible for medical benefits, the member must have retired either for service or disability. The KTRS Medical Insurance Fund offers coverage to members under the age of 65 through the Kentucky Employees Health Plan administered by the Kentucky Department of Employee Insurance. Once retired members and eligible spouses attain age 65 and are Medicare eligible, coverage is obtained through the KTRS Medicare Eligible Health Plan.

Funding policy – In order to fund the post-retirement healthcare benefit, active member contributions are matched by the state at .75% of members' gross salaries. Member contributions are 1.75% of salary. The premiums collected from retirees as described in the plan description and investment interest help meet the medical expenses of the plan. Additionally, under the Shared Responsibility Plan, the local school district employers pay 1.5% of members' salary for the 2013-2014 fiscal year. The District's contributions to the Retiree Medical Insurance Fund for the years ending June 31, 2014, 2013 and 2012 were \$95,261, \$62,565 and \$30,587 respectively.

MCLEAN COUNTY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

FOR THE YEAR ENDING JUNE 30, 2014

12. Contingencies

The District receives funding from federal, state and local government agencies and private contributions. These funds are to be used for designated purposes only. For government agency grants, if based upon the grantor's review, the funds are considered not to have been used for the intended purpose; the grantors may request a refund of monies advanced, or to refuse to reimburse the District for its disbursements. The amount of such future refunds and unreimbursed disbursements, if any, is not expected to be significant. Continuation of the District's grant programs is predicated upon the grantor's satisfaction that the funds provided are being spent as intended and the grantor's intent to continue its programs.

As reported in Note 7 above, the Kentucky School Facilities Construction Commission (KSFCC) is assisting the District with the repayment of the bond issues of 2002 (37%), 2006 (100%), 2008-ref(9%), 2008(56%), 2009-ref(63%) and 2012(100%). In the unlikely event the KSFCC defaults on their portion of the debt, the District is responsible to repay the amount in full. KSFCC's portion as of June 30, 2014, was \$4,381,466.

13. Risk Management

The District is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. To obtain insurance for workers' compensation, the District bought a commercial insurance policy. The District pays an annual premium for coverage. Contributions to the Workers' Compensation Fund are based on premium rates established by such fund in conjunction with the excess insurance carrier, subject to claims experience modifications and a group discount amount.

The District purchases unemployment insurance through the Kentucky School Boards Insurance Trust Unemployment Compensation Fund; however, risk has not been transferred to such fund. In addition, the District continues to carry commercial insurance for all other risks of loss. Settled claims resulting from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

14. Deficit Operating/Fund Balances

There are no funds of the District that currently have a deficit fund balance. However, the following funds have operations that resulted in a current year deficit of revenues under expenditures resulting in a corresponding reduction of fund balance. These deficits were funded by available resources at the beginning of the year.

Food Service Fund	\$	42,492
Construction Fund	\$	190,552
Child Care Fund	\$	1,986
Community Ed Fund	\$	4,231

15. Interfund Balances and Transfers

The interfund balances as of June 30, 2014 consisted of a receivable in the General fund from the Special revenue fund in the amount of \$32,850 for cash deficit in pooled account.

MCLEAN COUNTY SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDING JUNE 30, 2014

15. Interfund Balances and Transfers, continued

The following transfers were made during the year ended June 30, 2014:

<u>From Fund</u>	<u>To Fund</u>	<u>Purpose</u>	<u>Amount</u>
Nonmajor Governmental Funds:			
Capital Projects (SEEK)	Debt Service	Debt Payments	12,410
Capital Projects (FSPK)	Debt Service	Debt Payments	523,345
Total Nonmajor governmental funds			535,755
General Fund	Special Revenue	KETS match	29,000
General Fund	Special Revenue	Community Ed. match	5,000
Food Service Fund	General Fund	Indirect Costs	33,000
Total transfers			<u>\$ 602,755</u>

16. COBRA

Under COBRA, employers are mandated to notify terminated employees of available continuing insurance coverage. Failure to comply with this requirement may put the school district at risk for a substantial loss (contingency).

17. Commitments

The District had the following outstanding construction projects, as of June 30, 2014, evidenced by contractual commitments, purchase orders and BG-1 forms, as applicable.

<u>Project</u>	<u>Incurred- to-date</u>	<u>Commitment Remaining</u>	<u>Total</u>
MCHS Roof	100,532	1,992,731	2,093,263
	<u>\$ 100,532</u>	<u>\$ 1,992,731</u>	<u>\$ 2,093,263</u>

18. On-behalf Payments

The Commonwealth of Kentucky made payments on-behalf of the District as follows for the year ended June 30, 2014. The amounts are included in the General Fund, Debt Service Fund and Food Service Fund as Intergovernmental-State revenues. In the General Fund, the retirement payments are recorded as additional instruction expense and the health insurance, life insurance, flexible spending and administrative fees payments are allocated to the various expense functions based on a ratio of employees. The technology fees are recorded in district administration expense. In the Food Services Fund, all of the payments are recorded as additional employee benefits. The debt service payments are recorded as payment of principle and interest expense.

MCLEAN COUNTY SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDING JUNE 30, 2014

18. On-behalf Payments, continued

Kentucky Teachers Retirement System	\$ 842,321
Health insurance, life insurance, administrative fee, health reimbursement account, net of federal reimbursements	1,716,562
Technology	28,570
Debt Service	498,351
	<u>\$ 3,085,804</u>
Reported in:	
General Fund	\$ 2,509,048
Debt Service Fund	498,351
Proprietary Fund	78,405
	<u>\$ 3,085,804</u>

19. Change in Beginning Net Position

Governmental Accounting Standards Board statement 65 required changes to the beginning balances of the Statement of Net Position. Beginning net position of the governmental activities was decreased \$109,819 to eliminate bond issue costs, which had been capitalized and amortized on previous statements.

20. Subsequent Events

Management has evaluated subsequent events through November 3, 2014 the date on which the financial statements were available to be issued.

On May 22, 2014, the McLean County School District Finance Corporation approved a resolution relating to and providing for the issuance of \$2,020,000 principal amount school building revenue bonds dated July 1, 2014 to provide funds for replacing the High School roof.

On July 9, 2014, \$2,020,000 of McLean County School District Finance School Building Revenue Bonds were closed and delivered. The District received the proceeds, net of issuance cost, in the amount of \$1,986,803.

MCLEAN COUNTY SCHOOL DISTRICT
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES -
BUDGET AND ACTUAL - GENERAL FUND
FOR THE YEAR ENDED JUNE 30, 2014

	Budgeted Amounts			Variance with Final Budget Favorable (Unfavorable)
	Original	Final	Actual	
Revenues:				
From local sources				
Taxes				
Property	\$1,875,013	\$1,875,013	\$1,947,475	\$72,462
Motor vehicle	375,000	375,000	407,294	32,294
Unmined mineral	30,000	30,000	50,799	20,799
Utilities	515,000	515,000	592,132	77,132
Other				0
Earnings on investments	16,000	16,000	17,269	1,269
Contributions			1,600	1,600
Other local revenues	17,000	17,000	30,838	13,838
Intergovernmental - Local				0
Intergovernmental - State	6,310,800	6,310,800	6,532,864	222,064
Intergovernmental - Federal	25,000	25,000	39,096	14,096
Total revenues	9,163,813	9,163,813	9,619,367	455,554
Expenditures:				
Current:				
Instruction	5,391,053	5,391,053	5,487,022	(95,969)
Support services:				
Student	287,097	287,097	258,098	29,001
Instruction staff	398,865	398,865	354,599	44,266
District administrative	618,840	618,840	875,292	(256,452)
School administrative	838,434	838,434	753,611	84,823
Business	199,519	199,519	202,094	(2,575)
Plant operation and maintenance	1,366,234	1,366,234	1,248,800	117,434
Student transportation	778,056	778,056	814,808	(36,752)
Central office			0	0
Community service activities			0	0
Debt service:				
Principal	87,420	87,420	87,420	0
Interest			0	0
Total expenditures	9,965,518	9,965,518	10,081,742	(116,224)
Excess (deficit) of revenues over expenditures	(801,705)	(801,705)	(462,375)	339,330
Other Financing Sources (Uses):				
Property insurance proceeds			231,790	231,790
Capital leases			0	0
Transfers in	33,000	33,000	33,000	0
Transfers out	(34,000)	(34,000)	(34,000)	0
Contingency	(1,573,410)	(1,573,410)		1,573,410
Total other financing sources (uses)	(1,574,410)	(1,574,410)	230,790	1,805,200
Excess (deficit) of revenues and other financing sources over expenditures and other financing uses	(2,376,115)	(2,376,115)	(231,585)	2,144,530
Fund balance, July 1, 2013	2,376,115	2,376,115	2,499,500	123,385
Fund balance, June 30, 2014	\$0	\$0	\$2,267,915	\$2,267,915

**MCLEAN COUNTY SCHOOL DISTRICT
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES -
BUDGET AND ACTUAL - SPECIAL REVENUE FUND
FOR THE YEAR ENDED JUNE 30, 2014**

	Budgeted Amounts			Variance with Final Budget Favorable (Unfavorable)
	Original	Final	Actual	
Revenues:				
From local sources:				
Earnings on investments			\$ 38	\$ 38
Contributions		13,500	54,004	40,504
Other local revenues			-	-
Intergovernmental - State	\$ 483,104	483,655	493,382	9,727
Intergovernmental - Indirect federal	888,840	888,362	805,637	(82,725)
Intergovernmental - Direct federal	50,455	50,455	182,428	131,973
Total revenues	1,422,399	1,435,972	1,535,489	99,517
Expenditures:				
Current:				
Instruction	879,743	879,265	884,388	(5,123)
Support services.				
Student	128,631	128,631	151,777	(23,146)
Instruction staff	6,504	6,548	61,274	(54,726)
District administrative	90,700	90,700	95,545	(4,845)
School administrative			0	0
Business	163,544	177,044	162,128	14,918
Plant operation and maintenance			-	0
Student transportation	45,161	45,161	52,173	(7,012)
Community services	142,116	142,623	162,206	(19,583)
Capital outlay				
Facilities acquisition and construction				0
Total expenditures	1,456,399	1,469,972	1,569,489	(99,517)
Excess (deficit) of revenues over expenditures	(34,000)	(34,000)	(34,000)	0
Other Financing Sources (Uses):				
Proceeds from sale of fixed assets				
Transfers in	34,000	34,000	34,000	0
Transfers out				0
Total other financing sources (uses)	34,000	34,000	34,000	0
Excess (deficit) of revenues and other financing sources over expenditures and other financing uses	0	0	0	0
Fund balance, July 1, 2013				0
Fund balance, June 30, 2014	\$0	\$0	\$0	\$0

MCLEAN COUNTY SCHOOL DISTRICT

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES FOR BUDGETARY PROCESS

FOR THE YEAR ENDING JUNE 30, 2014

Budgetary Process

Budgetary Basis of Accounting: Annual budgets are adopted on a basis consistent with accounting principles generally accepted in the United States of America, except for on-behalf payments. The Kentucky Department of Education does not permit Kentucky school districts to budget on-behalf payments. All annual appropriations lapse at fiscal year-end.

As required by KRS 160.470, on or before January 31 of each year, the District commences budget preparation for the following fiscal year. Before May 30, a tentative working budget is presented to the Kentucky Department of Education. A final working budget must be prepared and adopted no later than September 30. The budget is periodically amended and adopted by the Board of Education during the fiscal year with a final budget adopted by the Board prior to June 30.

The appropriated budget is prepared by fund unit, function, program, level, object and project. The legal level of budgetary control is the fund level.

Reconciliation between the Budgetary Basis of Accounting and GAAP

A basis difference exists in the General Fund between the GAAP prescribed basis of accounting for governmental funds and the budgetary basis used by the District. The difference relates to on-behalf payments, primarily retirement and employee benefits in the General Fund. The Kentucky Department of Education encourages Kentucky school districts to include on-behalf payments in the budget process but the District did not budget on-behalf payments. Line item differences are as follows:

<u>General Fund:</u>	<u>Budget Basis</u>	<u>GAAP Basis</u>	<u>Difference</u>
Revenues:			
Intergovernmental-state	\$ 6,532,864	\$ 9,041,912	\$ 2,509,048
Expenditures:			
Instruction	5,487,022	7,295,234	1,808,212
Support services:			
Student	258,096	342,672	84,576
Instructional staff	354,599	459,332	104,733
District administration	875,292	938,424	63,132
School administration	753,611	950,020	196,409
Business support services	202,094	281,754	79,660
Plant operations maintenance	1,248,800	1,334,250	85,450
Student transportation	814,808	901,684	86,876

Special Revenue Fund:

There were no material variances between the GAAP prescribed basis of accounting for governmental funds and the budgetary basis used by the District.

**MCLEAN COUNTY SCHOOL DISTRICT
COMBINING BALANCE SHEET - NONMAJOR GOVERNMENTAL FUNDS
JUNE 30, 2014**

	FSPK Fund	SEEK Capital Outlay Fund	Debt Service Fund	Total Nonmajor Governmental Funds
Assets				
Cash and cash equivalents				\$0
Restricted cash		\$160,224		160,224
Total assets	<u>\$0</u>	<u>\$160,224</u>	<u>\$0</u>	<u>\$160,224</u>
Liabilities and Fund Balances				
Liabilities				
Accounts payable				\$0
Payable from restricted assets				0
Total liabilities	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
Fund Balances				
Restricted for:				
Capital Projects		\$160,224		160,224
Unassigned:				0
Total fund balances	<u>0</u>	<u>160,224</u>	<u>0</u>	<u>160,224</u>
Total liabilities and fund balances	<u>\$0</u>	<u>\$160,224</u>	<u>\$0</u>	<u>\$160,224</u>

**MCLEAN COUNTY SCHOOL DISTRICT
COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND
BALANCES - NONMAJOR GOVERNMENTAL FUNDS
FOR THE YEAR ENDED JUNE 30, 2014**

	<u>FSPK Fund</u>	<u>SEEK Capital Outlay Fund</u>	<u>Debt Service Fund</u>	<u>Total Nonmajor Governmental Funds</u>
Revenues:				
From local sources:				
Taxes				
Property	\$248,237			\$248,237
Intergovernmental - State	<u>275,108</u>	<u>\$144,371</u>	<u>\$498,351</u>	<u>917,830</u>
Total revenues	<u>523,345</u>	<u>144,371</u>	<u>498,351</u>	<u>1,166,067</u>
Expenditures:				
Debt Service:				
Principal			750,000	750,000
Interest			284,106	284,106
Total expenditures	<u>0</u>	<u>0</u>	<u>1,034,106</u>	<u>1,034,106</u>
Excess (deficit) of revenues over expenditures	<u>523,345</u>	<u>144,371</u>	<u>(535,755)</u>	<u>131,961</u>
Other Financing Sources (Uses)				
Transfers in			535,755	535,755
Transfers out	<u>(523,345)</u>	<u>(12,410)</u>		<u>(535,755)</u>
Total other financing sources (uses)	<u>(523,345)</u>	<u>(12,410)</u>	<u>535,755</u>	<u>0</u>
Excess (deficit) of revenues and other financing sources over expenditures and other financing uses	0	131,961	0	131,961
Fund balance, July 1, 2013	<u>0</u>	<u>28,263</u>	<u>0</u>	<u>28,263</u>
Fund balance, June 30, 2014	<u>\$0</u>	<u>\$160,224</u>	<u>\$0</u>	<u>\$160,224</u>

**MCLEAN COUNTY SCHOOL DISTRICT
COMBINING STATEMENT OF NET POSITION
NONMAJOR ENTERPRISE FUNDS
JUNE 30, 2014**

	<u>Child Care Fund</u>	<u>Community Ed. Fund</u>	<u>Total Nonmajor Enterprise Funds</u>
Assets			
Current assets			
Cash and cash equivalents	\$141	\$1,791	\$1,932
Inventory			0
Total assets	<u>141</u>	<u>1,791</u>	<u>1,932</u>
Liabilities			
Current liabilities			
Accounts payable	<u>64</u>		<u>64</u>
Total liabilities	<u>64</u>	<u>0</u>	<u>64</u>
Net Position			
Unrestricted	<u>77</u>	<u>1,791</u>	<u>1,868</u>
Total net position	<u><u>\$77</u></u>	<u><u>\$1,791</u></u>	<u><u>\$1,868</u></u>

**MCLEAN COUNTY SCHOOL DISTRICT
COMBINING STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION
NONMAJOR ENTERPRISE FUNDS
FOR THE YEAR ENDED JUNE 30, 2014**

	Child Care Fund	Community Ed Fund	Total Nonmajor Enterprise Funds
Operating Revenues:			
Community service activities	\$11,279	\$0	\$11,279
Other operating revenues			0
Total operating revenues	11,279	0	11,279
Operating Expenses:			
Salaries and wages	10,961	3,317	14,278
Employee benefits	998	864	1,862
Purchased professional services	0	50	50
Other purchased services	629	0	629
Materials and supplies	691	0	691
Other operating expenses			0
Total operating expenses	13,279	4,231	17,510
Operating gain/(loss)	(2,000)	(4,231)	(6,231)
Nonoperating Revenues (Expenses):			
Federal grants			0
State grants			0
Interest income	14		14
Total nonoperating revenues (expenses)	14	0	14
Change in net position	(1,986)	(4,231)	(6,217)
Net position, July 1, 2013	2,063	6,022	8,085
Net position, June 30, 2014	\$77	\$1,791	\$1,868

**MCLEAN COUNTY SCHOOL DISTRICT
COMBINING STATEMENT OF CASH FLOWS
NONMAJOR ENTERPRISE FUNDS
FOR THE YEAR ENDED JUNE 30, 2014**

	Child Care Fund	Community Ed. Funds	Total Nonmajor Enterprise Funds
Cash Flows from Operating Activities			
Cash received from:			
Community service activities	\$11,279	\$0	\$11,279
Cash paid to/for:			
Employees	(11,959)	(4,181)	(16,140)
Supplies	(1,307)	0	(1,307)
Other activities	0	(50)	(50)
Net cash provided (used) by operating activities	<u>(1,987)</u>	<u>(4,231)</u>	<u>(6,218)</u>
Cash Flows from Capital and Related Financing Activities			
Purchases of capital assets			0
Cash Flows from Investing Activities			
Receipt of interest income	14		14
Net increase (decrease) in cash and cash equivalents	(1,973)	(4,231)	(6,204)
Cash balances, beginning of year	<u>2,114</u>	<u>6,022</u>	<u>8,136</u>
Cash balances, end of year	<u><u>\$141</u></u>	<u><u>\$1,791</u></u>	<u><u>\$1,932</u></u>
Reconciliation of operating income (loss) to net cash provided (used) by operating activities			
Operating income (loss)	(\$2,000)	(\$4,231)	(\$6,231)
Adjustments to reconcile operating income to net cash provided (used) by operating activities			
Change in assets and liabilities			
Inventory			0
Accounts payable	13		13
Other current liabilities			0
Net cash provided (used) by operating activities	<u><u>(\$1,987)</u></u>	<u><u>(\$4,231)</u></u>	<u><u>(\$6,218)</u></u>

**MCLEAN COUNTY SCHOOL DISTRICT
COMBINING SCHEDULE OF RECEIPTS, DISBURSEMENTS, AND FUND BALANCES
ALL ACTIVITY FUNDS
FOR THE YEAR ENDED JUNE 30, 2014**

School	Cash Balances July 1, 2013	Receipts	Disburse- ments	Cash Balances June 30, 2014	Accounts Receivable June 30, 2014	Accounts Payable June 30, 2014	Fund Balances June 30, 2014
McLean Co. High School	\$99,746	\$448,573	\$433,257	\$115,062	\$1,573	\$17,413	\$99,222
McLean Co. Middle School	63,166	91,998	89,003	66,161		6,696	59,465
Calhoun Elementary	18,837	80,478	75,893	23,422		770	22,652
Livermore Elementary	19,397	84,431	84,526	19,302			19,302
Sacramento Elementary	11,853	30,562	24,651	17,764			17,764
Central Office							
Clyde & Troy Ande Memorial	8,113	46	1,000	7,159			7,159
Eubanks Memorial	2,545	1,012	2,000	1,557			1,557
Mary Havenor Scholarship	1,549	9		1,558			1,558
Tilden Humphrey UK Ag	-			0			0
FFA	4,031	22	900	3,153			3,153
Morgan Farley Memorial	379	1,701	2,000	80			80
Cindy West Scholarship	1,012	1,507	1,000	1,519			1,519
Special Ed (Hollander)	463	3		466			466
Volleyball (Paulson)	436	2		438			438
Tichner Landscaping UK AG	206	1		207			207
Misc. Scholarships	250	1,000	1,000	250			250
	<u>\$231,983</u>	<u>\$741,345</u>	<u>\$715,230</u>	<u>\$258,098</u>	<u>\$1,573</u>	<u>\$24,879</u>	<u>\$234,792</u>

The Activity Funds cash balances at June 30, 2014 consisted of the following:

Cash and cash equivalents	242,644
Investments(Certificated of Deposit)	15,454
	<u>\$ 258,098</u>

MCLEAN COUNTY SCHOOL DISTRICT
SCHEDULE OF RECEIPTS, DISBURSEMENTS, AND FUND BALANCES
MCLEAN COUNTY HIGH SCHOOL ACTIVITY FUNDS
FOR THE YEAR ENDED JUNE 30, 2014

	Cash Balances July 1, 2013	Receipts	Disburse- ments	Transfers	Cash Balances June 30, 2014	Accounts Receivable June 30, 2014	Accounts Payable June 30, 2014	Fund Balances June 30, 2014
General	\$1,542	\$5,290	\$7,651	\$ 2,032	\$1,213			\$1,213
Alternative	22	-	-	-	22			22
Credit Recovery	0	-	-	-	0			0
Teachers Lounge	2,470	807	2,357	(235)	685			685
Concessions	10,247	26,547	28,287	(1,198)	7,309			7,309
Dance Receipts	450	970	400		1,020			1,020
Cats Incentives	2	-	-	-	2			2
Textbook Rental	62	14,423	14,445	24	64			64
Peer Tutoring-Co-op	298	52	0	-	350			350
Townsend Scholarship	0	1,000	1,000	-	0			0
Gatton Scholarship	0	4,234	4,233	-	1			1
Guidance	323	600	789	-	134			134
Athletic	5,801	57,304	37,431	(15,862)	9,811			9,811
Soccer	1,591	6,263	7,133	952	1,673		69	1,604
Boys Basketball	1,157	16,189	15,333	1,124	3,136			3,136
Cheerleaders	1,138	15,372	15,031	914	2,393		657	1,736
Football	6,671	20,384	16,266	1,284	12,073		10,425	1,648
Girls Basketball	1,757	21,062	23,086	1,819	1,552			1,552
Girls Softball	746	7,024	7,064	1,629	2,335			2,335
Board Reimbursable Acct	0	22,621	17,846	(1,111)	3,664	1573	5,200	37
Track	343	6,026	9,204	3,836	0			0
Volleyball	325	6,416	7,292	625	74			74
Baseball	3,073	14,365	15,084	2,683	5,036		573	4,463
Junior Class	283	4,892	3,666	-	1,509			1,509
Senior Class	0	-	-	-	0			0
Annual	1,368	14,440	11,712	(2,071)	2,024			2,024
Academic Team	7	-	-	-	7			7
Beta Club	1,978	5,990	5,532	(548)	1,888			1,888
Y Club Donations	0	-	-	-	0			0
Champions Against Drugs	2,345	1,150	149	(1)	3,345		154	3,191
Costa Rica	0	43,371	37,408	430	6,393			6,393
CBI	161	110	153	-	119			119
FBLA	1,108	2,325	3,720	1,937	1,650			1,650
FCA	449	-	63	63	449			449
FFA	6,878	21,355	26,002	(15)	2,216			2,216
FCCLA	859	1,110	1,676	-	293			293
History Club	178	-	5	-	173			173
Library Club	2,495	430	1,519	-	1,406			1,406
Rock A Teens	18	2,949	1,998	(9)	961			961
Science Club	1,013	680	230	-	1,463			1,463
Spirit/Pep Club	0	649	604	-	45			45
Spanish Club	1,468	480	452	-	1,496			1,496
Student Council	185	-	-	-	185			185
AP Fees	1,301	6,500	6,628	-	1,173			1,173
ROTC	4,381	6,614	6,414	(35)	4,545			4,545
Peers Monitoring	0	-	-	-	0			0
Discount Cards	4,692	1,433	5,592	-	533			533
Cougar Quick Recall	91	-	-	-	91			91
Cougar Book Club	117	10	40	-	86			86
Band	4,820	40,403	42,253	249	3,218			3,218
Agriculture	688	1,473	1,542	(16)	603		233	370
Greenhouse	6,833	5,808	5,428	-	7,215			7,215
Art	248	1,235	894	3	592			592
Art Club	49	190	101	-	138			138
ASL	211	-	-	-	211			211
Arts & Humanities	1,075	241	144	-	1,172			1,172
Drama Club	1,085	-	152	(11)	923			923
Business	1,691	1,856	2,108	(44)	1,395			1,395
Technology	264	42	0	-	306			306
Career Choices	0	250	175	-	75			75
MCCHS Student	226	1,302	2,107	740	161			161
Drivers Ed	2,045	136	170	-	2,011			2,011
English	1,508	1,525	754	(6)	2,270			2,270
Consumer & Family	1,717	2,612	3,321	(34)	975			975
Math	394	1,357	1,356	-	395			395
PE	64	1,406	2,336	871	5			5
Science	1,621	5,593	4,579	3	2,638			2,638
Disney	1,377	412	-	-	1,788			1,788
Social Studies	216	1,721	1,858	15	94			94
Moot Court	2,760	15,834	16,122	(17)	2,455		102	2,353
Spanish	1,213	652	272	(19)	1,574			1,574
Special Ed	246	-	-	-	246			246
Charitable Gaming	5	4,089	4,089	-	5			5
TOTAL	\$99,746	\$448,573	\$433,257	\$0	\$115,062	\$1,573	17,413	\$99,222

**MCLEAN COUNTY SCHOOL DISTRICT
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2014**

Federal Grantor Pass-Through Grantor Program Title	Federal CFDA Number	Agency or Pass-through Number	Federal Disbursements/ Expenditures
U.S. DEPARTMENT OF AGRICULTURE			
PASSED THRU STATE DEPARTMENT OF EDUCATION:			
CHILD NUTRITION CLUSTER:			
SCHOOL BREAKFAST PROGRAM	10.553	7760005-13	\$ 26,786
	10.553	7760005-14	95,438
			<u>122,224</u>
NATIONAL SCHOOL LUNCH PROGRAM			
Cash Assistance	10.555	7750002-13	82,149
	10.555	7750002-14	287,420
NonCash Assistance - Commodities (Note C)	10.555	Fund 51	56,020
			<u>425,589</u>
SUMMER FOOD SERVICE PROGRAM	10.559	7690024-13	1,542
	10.559	7690024-14	1,278
	10.559	7740023-13	16,791
	10.559	7740023-14	12,307
			<u>31,918</u>
TOTAL CHILD NUTRITION CLUSTER			<u>579,731</u>
SCHOOL & COMMUNITY NUTRITION	10.560	7650012-12	<u>1,000</u>
TOTAL U.S. DEPARTMENT OF AGRICULTURE			<u>580,731</u>
U.S. DEPARTMENT OF EDUCATION			
PASSED THROUGH STATE DEPARTMENT OF EDUCATION:			
TITLE I, GRANTS TO LOCAL EDUCATION AGENCIES	84.010	3100002-13	219,868
	84.010	3100002-12	124,861
TOTAL TITLE I			<u>344,729</u>
MIGRANT EDUCATION-STATE GRANT PROGRAM	84.011	3110002-12	<u>22,339</u>
			<u>22,339</u>
SPECIAL EDUCATION CLUSTER:			
SPECIAL EDUCATION - GRANTS TO STATES	84.027	3610002-13	278,394
			<u>278,394</u>
SPECIAL EDUCATION - PRESCHOOL GRANTS	84.173	3600002-13	9,770
	84.173	3600002-12	4,687
			<u>14,457</u>
TOTAL SPECIAL EDUCATION CLUSTER			<u>292,851</u>
VOCATIONAL EDUCATION BASIC GRANTS TO STATES	84.048	3710002-13	16,672
	84.048	4621332-13	796
			<u>17,468</u>
IMPROVING TEACHER QUALITY STATE GRANTS	84.367	3230002-13	28,712
	84.367	3230002-11	11,038
	84.367	3230002-12	47,270
			<u>87,020</u>

Continued

**MCLEAN COUNTY SCHOOL DISTRICT
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS, continued
FOR THE YEAR ENDED JUNE 30, 2014**

Federal Grantor Pass-Through Grantor Program Title	Federal CFDA Number	Agency or Pass-through Number	Federal Disbursements/ Expenditures
<u>U.S. DEPARTMENT OF EDUCATION, CONTINUED</u>			
TITLE VI RURAL & LOW INCOME	84.358	3140002-12	12,083
	84.358	3140002-11	19,706
			<u>31,789</u>
RACE TO THE TOP	84.413A	3960002-11	<u>9,441</u>
TOTAL U.S. DEPARTMENT OF EDUCATION			<u>805,637</u>
<u>U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES</u>			
DRUG-FREE COMMUNITY SUPPORT	93.276	5003	24,556
	93.276	5004	<u>93,193</u>
			<u>117,749</u>
TOTAL U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES			<u>117,749</u>
<u>U.S. DEPARTMENT OF DEFENSE</u>			
ROTC	1010.13JROTC	6009.00	<u>64,679</u>
TOTAL U.S. DEPARTMENT OF DEFENSE			<u>64,679</u>
TOTAL FEDERAL AWARDS			<u>\$ 1,568,796</u>

Note A: Basis of Presentation:

This schedule of expenditures of federal awards includes the federal grant activity of the McLean County School District under programs of the federal government for the year ended June 30, 2014. The information in this Schedule is presented in accordance with the requirements of Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Because this Schedule presents only a selected portion of the operations of the McLean County School District, it is not intended to and does not present the financial position, changes in net position, or cash flows of the McLean County School District.

Note B: Summary of Significant Accounting Policies:

- (1) Expenditures reported on this Schedule are reported on the accrual basis of accounting. Such expenditures are recognized following the cost principles contained in OMB Circular A-87, *Cost Principles for State, Local, and Indian Tribal Governments*, wherein, certain types of expenditures are not allowable or are limited as to reimbursement.
- (2) Pass-through entity identifying numbers are presented where available.

Note C: Commodities:

Nonmonetary assistance is reported in the schedule at the fair market value of the USDA food commodities received and disbursed.

Note D: Medicaid Reimbursements:

Although reported in the financial statements as direct federal revenue, medicaid reimbursements (\$39,096) are not considered expenditures of federal awards for the purposes of the schedule.

MCLEAN COUNTY SCHOOL DISTRICT
BOARD MEMBERS AND ADMINISTRATIVE PERSONNEL

JUNE 30, 2014

<u>Board Members</u>	<u>Address</u>	<u>Term Expires December 31</u>
William Lovell Chairman	Livermore, Kentucky	2014
Kelly Baird	Calhoun, Kentucky	2014
Wendell Miller	Sacramento, Kentucky	2016
Joyce Sutton	Island, Kentucky	2016
Otis Griffin	Calhoun, Kentucky	2016

Administrative Personnel

John C. (Tres) Settle III - Superintendent and Secretary of the Board

Jodie Brackett – Instructional Supervisor

Steve Riggs – Director of Pupil Personnel Transportation and Facilities

Deborah DeArmond – Director of Federal Programs, Human Resources

Sherri Turley – Director of Special Education, FRYSC

David Stokes – Finance Officer

Vicki Hughes -- Director of Food Services

Jason Bowman - Technology



ALFORD, NANCE & JONES, LLP
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INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON
COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED
IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

State Committee for School District Audits
Members of the Board of Education
McLean County School District
Calhoun, Kentucky

We have audited, in accordance with the auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, and the audit requirements prescribed by the State Committee for School District Audits' Fiscal year 2013-2014 Financial Audit Contract, the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of McLean County School District as of and for the year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise the McLean County Board of Education's basic financial statements and have issued our report thereon dated November 3, 2014.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered McLean County School District's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the McLean County School District's internal control. Accordingly, we do not express an opinion on the effectiveness of the McLean County School District's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or, significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether McLean County School District's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*. In addition, the results of our tests disclosed no instances of material noncompliance of specific state statutes or regulations identified in the State Committee for School District Audits' Fiscal Year 2013-2014 Financial Audit Contract.

We noted certain matters that we have reported to management in a separate letter dated November 3, 2014.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

A handwritten signature in black ink that reads "Alford Nance & Jones LLP". The signature is written in a cursive, flowing style.

Alford, Nance & Jones, LLP
Madisonville, KY
November 3, 2014



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INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR EACH MAJOR PROGRAM AND ON INTERNAL
CONTROL OVER COMPLIANCE REQUIRED BY OMB CIRCULAR A-133

State Committee for School District Audits
Members of the Board of Education
McLean County School District
Cahoun, Kentucky

Report on Compliance for Each Major Federal Program

We have audited McLean County School District's compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on each of McLean County School District's major federal programs for the year ended June 30, 2014. McLean County School District's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to its federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of McLean County School District's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations* and the audit requirements prescribed by the State Committee for School District Audits' Fiscal Year 2013-2014 Financial Audit Contract. Those standards, requirements, and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about McLean County School District's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination on McLean County School District's compliance.

Opinion on Each Major Federal Program

In our opinion, McLean County School District complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2014.

Report on Internal Control Over Compliance

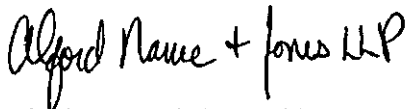
Management of McLean County School District is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered McLean County School District's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each

major federal program and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion of the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of McLean County School District's internal control over compliance.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A *material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. A *significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses, or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.



Alford, Nance & Jones, LLP
Madisonville, KY
November 3, 2014

MCLEAN COUNTY SCHOOL DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
for the year ended June 30, 2014

A. Summary of Audit Results

1. The auditor's report expresses an unmodified opinion on the financial statements of the McLean County School District.
2. No significant deficiencies relating to the audit of the financial statements as reported in the Independent Auditor's Report on Internal Control over Financial Reporting and Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance With *Government Auditing Standards*.
3. No instances of noncompliance material to the financial statements of McLean County School District were disclosed during the audit.
4. There were no deficiencies in internal control disclosed during the audit of the major federal award programs as reported in the Independent Auditors Report on Compliance for Each Major Program and on Internal Control Over Compliance Required by OMB Circular A-133. No material weaknesses are reported.
5. The auditor's report on compliance for the major federal award programs for the McLean County School District expresses an unmodified opinion on all major federal programs.
6. There were no audit findings that are required to be reported in accordance with Section 510(a) of OMB Circular A-133.
7. The programs tested as major programs included:

Child Nutrition Cluster:	
- National School Lunch	10.555
- National School Breakfast	10.553
- Summer Food Service	10.559
 Title I	 84.010
 Drug-Free Community Support	 93.276
8. The threshold for distinguishing Types A and B programs was \$300,000.
9. McLean County Board of Education was determined to be a low risk auditee.

MCLEAN COUNTY SCHOOL DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS, continued
for the year ended June 30, 2014

B. Findings-Financial Statements Audit

None reported

C. Findings and Questioned Costs - Major Federal Award Program Audit

None reported

D. Schedule of Prior Audit Findings (Relative to Federal Awards)

None reported



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State Committee for School District Audits
Members of the Board of Education
McLean County School District
Calhoun, Kentucky 42327

In planning and performing our audit of the financial statements of the McLean County School District for the year ended June 30, 2014, we considered the District's internal control structure to determine our auditing procedures for the purpose of expressing an opinion on the financial statements and not to provide assurance on the internal control structure.

However, during our audit, we became aware of several matters that are opportunities for strengthening internal controls and operating efficiency. The memorandum that accompanies this letter summarizes our comments and suggestions regarding those matters. A separate report dated November 8, 2014 contains our report on significant deficiencies and material weaknesses, if any, in the District's internal control structure. This letter does not affect our report dated November 3, 2014 on the financial statements of the McLean County School District.

We appreciate the opportunity to bring these comments to your attention. We have already discussed many of these comments and suggestions with various District personnel, and we will be pleased to discuss them in further detail at your convenience, to perform any additional study of these matters, or to assist you in implementing the recommendations.

Alford Nance & Jones LLP
Alford, Nance, & Jones, LLP
November 3, 2014

MCLEAN COUNTY SCHOOL DISTRICT

MANAGEMENT LETTER POINTS

For the year ended June 30, 2014

CURRENT YEAR MANAGEMENT LETTER POINTS

School Activity Funds Required Forms/Procedures

Finding and Criteria

The KDE "Red Book" requires the use of specific forms (or reasonable facsimiles) and various procedures for certain activities. Below summarizes required forms or procedures not being used correctly:

<u>Cause and Effect:</u>	<u>MCHS</u>	<u>MCMS</u>	<u>CES</u>	<u>LES</u>	<u>SES</u>
Used multiple receipts forms instead of tickets	X				
Inconsistent sign offs on ticket sales form	X	X			
Inconsistent purchase order approval signatures	X				
No inventory control for concessions		X			
Fundraiser worksheet not used for each fundraiser		X			
Missing some PTO information-budget, etc.		X			
Purchased supplies, subscriptions, stamps, toner, food		X	X	X	X
Reimbursements posted incorrectly in Teacher Fund				X	
Missing some fundraiser approval forms				X	
Missed several SBDM meetings				X	
Missing some multiple receipts forms					X

Recommendation: We recommend that the principal and secretary at each school review the "Red Book" and comply with its requirements regarding the use of standard forms and procedures.

Response: Superintendent and Finance Officer will meet again with each building administrator and bookkeeper to review audit findings. The importance of compliance with Red Book procedures will again be expressed to each school. The District held another "in house" Red Book training in June 2014. Furthermore, the Superintendent will now include the Red Book compliance as a specific part of each building administrator's annual evaluation.

MCLEAN COUNTY SCHOOL DISTRICT

MANAGEMENT LETTER POINTS

For the year ended June 30, 2014

PRIOR YEAR MANAGEMENT LETTER COMMENTS (with current year status)

Finding and Criteria

The KDE "Red Book" requires the use of specific forms (or reasonable facsimiles) and various procedures for certain activities. Below summarizes required forms or procedures not being used correctly:

<u>Cause and Effect:</u>	<u>MCHS</u>	<u>MCMS</u>	<u>CES</u>	<u>LES</u>	<u>SES</u>
General fund receipts applied to Teacher account	X			X	
No fundraiser approval for Target take charge in Teacher acct	X				
Numerous transfer forms not signed by both parties	X				
Ticket sales form not used or not completed accurately	X	X			
Interest earned not allocated to other funds	X				
Credit card sign in/out sheet not used at times		X			
Annual Report reconciliation not accurate		X			
Some deposits not made timely		X			
Missing some Fundraiser worksheets		X			X
Purchased equipment/supplies with student money		X		X	X
Missing form FSA17 for concession deposit		X			
Multiple receipt forms not completed accurately		X			
Transfer forms not used			X	X	
Did not use expense report			X		
Missing some Booster organization information				X	
Cancelled 50% of SBDM meetings				X	

Recommendation: We recommend that the principal and secretary at each school review the "Red Book" and comply with its requirements regarding the use of standard forms and procedures.

Response: Superintendent and Finance Officer will meet again with each building administrator and bookkeeper to review audit findings and stress importance of compliance with Red Book procedures. The District has also paid for Redbook trainings two out of the last three years.

FYE 06/30/14 Still applicable, see current year comment

Laws and Regulations

Salary Schedules

Criteria: Observance of approved single salary schedule is required by KRS 157.320(12), KRS 157.350(3) and 702 KAR 3:070. Teachers are paid based on training, experience and other factors as the Kentucky Board of Education may approve and which does not discriminate.

Finding: Our audit procedures indicated the District paid an individual based on years of service that wasn't supported with the teaching certificate in the personnel file.

MCLEAN COUNTY SCHOOL DISTRICT

MANAGEMENT LETTER POINTS

For the year ended June 30, 2014

Laws and Regulations, continued

Cause and Effect: The employee with previous experience was hired by the district several years ago. The employee's initial pay information was recorded incorrectly causing the employee to receive an additional year of experience step in pay since employment.

Recommendation: We recommend extra care be given when setting up payroll information for new employees, especially in regards to previous years of experience.

Response: The personnel department is doing an audit of every employee in district to ensure the experience that they are being paid for is correct. Each full time employee will have an experience reconciliation sheet in their personnel file after the internal audit is complete. The reconciliation procedures have been in place for several years now, however, the incorrect set up occurred approximately ten years ago. Thus the need for a full audit of all personnel folders, especially those hired before the procedures were put into place.

FYE 06/30/14 No exceptions noted during current year